



# ***JPRS Report***

## **China**

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# China

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## NEAR EAST/SOUTH ASIA

### XINHUA Examines Renewed Iran-Saudi Ties

OW2103005291 Beijing XINHUA in English  
1507 GMT 20 Mar 91

[“Round-up by Li Hongqi: Iran, Saudi Arabia Agree To Resume Diplomatic Ties”—XINHUA headline]

[Text] Tehran, March 20 (XINHUA)—Iran and Saudi Arabia announced today they have decided to resume diplomatic relations on Tuesday.

The decision declared in a joint communique released simultaneously in Tehran and Riyadh, has not only opened a fresh page in bilateral ties between the two giants in the Gulf, but also ushered in a new era of cooperation among the Gulf countries.

Iran and Saudi Arabia had embroiled in a chain of rows in the past decade. Riyadh bankrolled Iraq in its eight-year war with Iran, and its security forces clashed with Iranian pilgrims in Mecca in July 1987 with a death toll of over 400.

Riyadh severed its ties with Tehran in April 1988, followed by a bitter dispute over the Saudi pilgrim quota system, which cut the number of Iranian pilgrims by two-thirds.

After Iran accepted the UN brokered ceasefire in its war with Iraq in August 1988, most of the Gulf countries began to seek better ties with it. But the strained Tehran-Riyadh relations blocked substantial progress.

Oman and some other Gulf states tried to mediate between the two regional powers, but these led nowhere until the Gulf crisis broke out early last August.

Iraq's sudden invasion of Kuwait dramatically narrowed the gap between Iran and Saudi Arabia. Although Iran remained neutral in the conflict while the Saudis sought Western help, the two countries condemned the Iraqi military move and asked Baghdad to withdraw from Kuwait.

Since September, Iranian Foreign Minister 'Ali Akbar Velayati and its Saudi counterpart Sa'ud al-Faysal have met three times in the United Nations, Geneva, and Oman's capital Muscat to discuss bilateral ties and the regional security issue. The Saudi agreement at their Sunday Muscat session to increase the Iranian pilgrim quota to 110,000 has removed the last obstacle on the way to normalizing relations.

However, the most driving force behind the warm-up of relations is the urgent need for making security arrangements in the region following the end to the hostilities between the U.S.-led coalition and Iraq.

Both countries have realized that better ties between them are indispensable in order to maintain security after the allied forces quit the region.

Iran has repeatedly voiced its sincerity for cooperation with the Gulf Arab states, knowing that it could do nothing if it alienates itself from the Arabs.

The Saudis apparently count on Egypt and Syria for help in restructuring regional security. Egypt and Syria, on their own part, have never said that the Iranians' role in this regard could be ignored.

Saudi Arabia and Iran still differ on some relevant matters, but the decision to resume diplomatic ties has opened a convenient channel to bridge the difference.

Undoubtedly, the rapprochement between Tehran and Riyadh will encourage other Gulf Arab countries to speed up the improvement of their relations with Iran.

## WEST EUROPE

### UK Prime Minister Major's Europe Policy Viewed

HK2203051391 Beijing RENMIN RIBAO in Chinese  
15 Mar 91 p 6

[“News Analysis” by Chen Tean (7115 3676 1344), dispatched from London 12 March: “New Feature of John Major's Europe Policy”]

[Text] On 11 March, British Prime Minister John Major held a British-German summit meeting in Germany with Chancellor Helmut Kohl, the first meeting of its kind since he assumed office. In the evening, he delivered a speech entitled “The Progress of Europe” at the headquarters of the Christian Democratic Union. People here said that during Major's current visit, he particularly emphasized British readiness to play a role in “the heart of Europe,” “instead of stressing British sovereignty.” Different from “Mrs. Thatcher's 1988 Brussels speech,” his speech was viewed as the Major government's “bedrock for its policy toward Europe.”

The two top government leaders exchanged views on major issues concerning Europe, the Middle East, the Soviet Union, and bilateral relations but the central issues under discussion were European economic and monetary union and defense and diplomatic cooperation. On the issue of European economic and monetary union, Germany agreed to slow down the process of establishing a European Central Bank and introducing a single currency. While stressing that the second-stage monetary policy toward the economic and monetary union should still be in the hands of various countries, Prime Minister Major did not rule out the possibility of a single currency emerging in the future. Both sides' views have become closer than before.

Local media held that in his speech Major “put the promotion of cooperation between Britain and Germany and the economic, political, and military cooperation of the European Community as a whole in a central position.” The policy toward Europe expounded by Major in the speech was obviously different from that of his

predecessor, Mrs. Thatcher. Therefore, it was a "Major breakthrough." The Major speech stressed that Britain's fate hinges on Europe while the Mrs. Thatcher speech stressed that Europe has become strong rests on the fact that every country in Europe has its own specific characteristics. The former stressed the need for Britain "to be at the center of Europe" and to enthusiastically "work together with its European partners," while the latter stressed that the fact that the European countries "have been working more closely together does not mean concentrating their power on Brussels" and that it is necessary to guard against the emergence of "a new control by European superpowers." The former stated that while Europe was moving to "a further integration," it was necessary to "maintain an appropriate balance between close cooperation and national dignity" while the latter stressed the need to take Britain's sovereignty as the core of the British policy toward Europe.

In regard to British-German relations, at a joint news conference, Chancellor Kohl said that since Major assumed the prime minister's office, "a working relationship little short of being extraordinary has taken place between us." On his part, Major hoped for further strengthened cooperation between the Conservative Party and the Christian Democratic Union in the European Parliament. Apparently, there has been a distinct improvement in the relations between Britain and Germany.

Nevertheless, there are still differences between the two countries. Although both sides stressed the importance of close cooperation between Germany, Britain, and France to Europe, Major indicated that Britain reserved its right not to reach a consensus on some issues with its European partners. On the issue of European economic and political union, Prime Minister Major stated that Britain did not accept a single European currency but believed that meetings of EC member governments

would make certain arrangements so as to protect the British Parliament's right to make a decision sometime later. In other words, Britain favors not rushing for the realization of an economic and political union. On the issue of European defense, several European big powers, including France, Germany, and Italy, intend to relatively divorce themselves from the United States to achieve an independent European defense. The United States is quite dissatisfied with this issue, on which Britain, which wants to maintain its special relations with the United States and preserve its European partners, is in an awkward predicament. Prime Minister Major reaffirmed that Britain favors giving priority to maintaining the U.S. military presence in Europe in terms of defense. Naturally there is a gap between this position of Britain and that of its European partners.

Both Britain and Germany expected something from the current summit meeting. On Britain's side, as local media pointed out, Prime Minister Major wanted to promote British-German relations through his current visit and display the new stance of the Europe policy of the Conservative Party's government, so as to extricate itself from the state of Britain being relatively "isolated" in Europe and proceed to open a path for Britain to play a key role in the European arena. At the same time, through his current visit, he also wanted to prepare for the quickly approaching general election. On Germany's side, it wanted to "gain something beneficial from maintaining close ties with Britain."

Britain's policy toward Europe has always been controversial. Former Prime Minister Mrs. Thatcher said that if the Conservative Party government is ready to accept a complete renunciation of sovereignty, the debate within the Conservative Party over its Europe policy will rise once again. The Major government's Europe policy is still facing a test.

**'Inside Story' of Jiang Zemin's Rise Reported**

*91CM0275A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 253, Feb 91 pp 99-101*

[Article by Liu Chin (0491 6855): "When Did the Backstage Ruler Take a Liking To Him? Jiang Zemin's Road to High Office, Part V"; Part IV was published in JPRS-CAR-91-024, 30 April 1991, pp. 5-9]

[Text] **Rui Xingwen [5360 2622 2429]** outranked Jiang Zemin, but after 4 June, one was no longer an official, and the other became general secretary.

When Jiang Zemin helped the Kanghua Corporation in the same year, Deng's son said he had to salute him. Later on, Zhao Ziyang wanted to make an example of the Kanghua Corporation. These events were to have an effect on how old Deng choose personnel.

Jiang Zemin's meteoric rise and the avenues that the god of good fortune opened to him are the envy of his colleagues. On this matter, Rui Xingwen, who accompanied Jiang Zemin to Shanghai in 1984, has the greatest feelings. Rui Xingwen might say: "I never imagined that Comrade Xiaoping would take a liking to Fat Jiang!"

**Hu Yaobang's Dislike for Mayor Jiang**

"Fat Jiang" is a nickname for Jiang Zemin that ranking Party and government cadres in provinces and cities use for Jiang Zemin. He got this nickname at the 1986 first conference of responsible provincial and municipal officials. At this time, Rui Xingwen was first in command in Shanghai as municipal CPC committee secretary and still above Jiang Zemin. Jiang was then the second in command as the municipal CPC committee deputy secretary and concurrently mayor. He had to yield to Rui Xingwen. At a banquet, Zhejiang provincial governor Shen Zulun [3088 4371 0243] called Rui Xingwen "Big Rui," which greatly pleased Rui Xingwen, who gave Jiang Zemin the nickname "Fat Jiang." Putting on a false front, Jiang chuckled agreeably. Privately someone advised Jiang: "Rui Xingwen is making fun of you!" but Jiang simply laughed wryly and said: "That's all right. That's all right. We get alone quite well."

While in Shanghai, Rui and Jiang engaged in both open strife and veiled struggle, and finally the conflicts between the two became an open secret in Shanghai political circles. Never mind the municipal CPC committee, cadres in the municipal government also knew, and even ordinary citizens in the city could see. What people could not understand was why Rui Xingwen did not care for Jiang Zemin. Rui's secretary provided the explanation: Rui Xingwen's backers were Deng Xiaoping and Hu Yaobang. Deng had a great deal of confidence in Secretary Rui, and Hu Yaobang did not like Mayor Jiang.

When he was CPC Central Committee general secretary, Hu Yaobang visited or transited Shanghai on several occasions, and Jiang Zemin always went out of his way to please him. Everyone knew that Hu did not like such

actions. Hu was straightforward and outspoken by nature, and he greatly despised apple polishing by his subordinates. As to how Hu Yaobang dealt with Jiang Zemin, let the words of a worker in the Shanghai municipal government explain: "When Jiang Zemin saw Hu Yaobang, he got a headache."

Hu Yaobang had good reason for being angry with Jiang Zemin. During the time of the Shanghai student movement of 1986 and early 1987, Jiang Zemin requested instructions from Hu Yaobang, asking that the secretary general agree to a crackdown on the students. This met with a rebuff from Hu, and Jiang made a criticism of himself right on the telephone. Later on, however, when Hu was dismissed from his position, Jiang Zemin made a criticism of Hu Yaobang that, is believed, came to the attention of Deng Xiaoping.

**Rui Xingwen Was Once the Imperial Envoy, But...**

Actually, at first Deng Xiaoping wanted Jiang Zemin to go to Shanghai so that he would be under the close watch of Rui Xingwen. People close to Rui Xingwen said: "It is our leader who has the real confidence of Comrade Xiaoping. Mayor Jiang is a secretary in charge, but our leader is in charge of him."

Before Rui and Jiang left Beijing for Shanghai, Jiang did not yet have the standing for a personal chat with Deng Xiaoping, but Rui had a long talk with Deng. Afterward, Rui said: "Comrade Xiaoping said repeatedly that he wants me to take firm hold of work in Shanghai." In short, it was Rui Xingwen who Deng Xiaoping sent to Shanghai that year as an imperial envoy. At that time, if Jiang could win Rui's good will, he would feel very pleased. He certainly had no expectation of being crown prince. Nevertheless, given the environment, Jiang was doubly careful so he would make few mistakes and not be too abrasive.

It is frequently difficult to predict the course of events in the world. Clearly, Rui Xingwen was Jiang Zemin's immediate superior, and clearly Jiang Zemin was a person in whom Deng Xiaoping did not have great confidence. But in just two to three years' time, the situation changed dramatically. Today Rui Xingwen is under house arrest at Jinghua and not much better off than a prisoner. And Jiang Zemin's star has gone straight up. He is now draped in imperial robes, becoming the puppet emperor whom the backstage ruler is especially fond of and trusts. The inside story is that after Jiang Zemin went to Shanghai, his relations with the Deng family became close. At the beginning of 1986, he had contacts with the Deng children. In 1988, when Rui Xingwen was transferred to become secretary in the Central Committee Secretariat and was unable to manage Shanghai affairs, he still did not understand at the time why he had been transferred to Beijing to the thankless job of a Beijing official.

In early 1986, Rui Xingwen received word of a relationship between Jiang Zemin and the Kanghua Corporation, but he did not pay much attention to it. Rui

probably never dreamed that Jiang Zemin was erecting an antenna via the Kanghua Corporation and Deng Xiaoping's children. Possibly Rui Xingwen was too careless, supposing that he would occupy Jiang Zemin's seat, because his former seat was a little farther forward than the armchair of Jiang. However, the emperor's heart had changed. In 1986 and in 1988, Deng Xiaoping regarded Jiang differently than previously, promoting Jiang Zemin both times. Thus, at the 13th Party Central Committee meeting of 1987, Jiang Zemin became a member of the Politburo while Rui Xingwen was only the secretary of the Secretariat. After 4 June 1989, Jiang Zemin leaped to the position of general secretary, and Rui Xingwen was haplessly dismissed from office.

### Jiang Zemin and Deng's Children

In early 1986, Deng Xiaoping's son Deng Pufang and the heads of the Kanghua Corporation, Jia Hongsheng [6328 5725 3932] and Wang Luguang [3769 7627 0342], went to Shanghai to get the support of Shanghai Party and government leaders. At that time, Deng Pufang was already having quite a lot to do with the Kanghua Corporation, doing business amounting to 100 million yuan. However, the ambitions of Deng Pufang and his buddies was even greater. They wanted to do two things in Shanghai: One, they wanted to use Shanghai as a base for running a group that matched Rong Yiren's [2837 3015 0088] China Trust Investment Corporation; and two, they wanted to do a huge business in Shanghai products with Hong Kong.

At the outset, Deng Pufang asked Rui Xingwen to lend a hand, but Rui was keeping in step with Hu Yaobang, and Hu Yaobang told Rui Xingwen specifically that he should not allow any unhealthy tendencies to raise their head in Shanghai, and that he should dare to oppose them. Thus, Rui Xingwen posed a difficult problem for the Deng children.

At that time, a big case involving a Hong Kong businessman's bribing a high official was underway in Shanghai, and Rui was personally conducting the case. The accused in the case was Yu Tiemin [0151 6993 3046], secretary to the former first secretary of the Shanghai Municipal CPC Committee, Chen Guotong [7115 0948 2767]. Yu had accepted a bribe of less than 10,000 yuan, but when it came out there was no end to the uproar, so much so that whenever a high ranking cadre saw a Hong Kong businessman coming to make a request, he would avoid him for fear of being unable to get away fast enough. Rui feared that he might become personally involved, so he became a model in attacking unhealthy tendencies. Consequently, his attitude toward Deng Pufang was clearly unenthusiastic and disrespectful. Reportedly, later on when word of this reached old Deng, even he was incensed.

The excellence of Jiang Zemin's slick and sly ways were also revealed in this matter. After Rui Xingwen turned aside the Kanghua Corporation, Jiang Zemin took the initiative in handling matters, eagerly welcoming Deng

Pufang. The cleverness lay in Jiang going so far as to let Rui congratulate himself secretly, believing that he had tossed a hot potato to Jiang and being grateful to Jiang. Jiang Zemin satisfied the Kanghua Corporation's request, and made sure that it did not act ostentatiously. Moreover, the material assistance given exceeded Kanghua's expectation both in terms of quantity and quality, without leaving evidence that could be used against it. On the surface, everything conformed with pertinent regulations and policies. At a handicapped people's meeting in Shanghai, Deng Pufang said, "Mayor Jiang really supports and understands us handicapped people." Then he took the lead in "saluting" Mayor Jiang.

The Hong Kong businessman who did business with Kanghua certainly remembers that the Shanghai municipal authorities put him up in a guesthouse reserved for high ranking cadres. At first the Hong Kong businessman almost thought that a mistake had been made in the accommodations. Then when Mayor Jiang and responsible officers from the Kanghua Corporation feted him, Jiang Zemin also talked at length about his experiences while transiting Hong Kong several times and said in Shanghai dialect: "Be careful, once Hong Kong has been taken back, there will certainly be business to do!" Thus, when Kanghua finally expanded its operations to Hong Kong, the people of Hong Kong would also see the deeds of Deng Pufang's soldiers.

It is believed that after returning to Beijing, Deng Pufang talked to Deng Xiaoping about Jiang Zemin. Later on Jiang's official career took a turn for the better. Deng Xiaoping was no longer so wary of Jiang Zemin. In September 1986, Deng Xiaoping received Jiang Zemin and talked with him for more than two hours. Reportedly, afterward Deng said that Jiang was a "rare talent."

### Rui Xingwen and Hu Yaobang

On his way back from a visit abroad in October 1986, Hu Yaobang transited Shanghai where he talked to Rui Xingwen for hours at Hongqiao Airport. Rui raised Jiang's handling of the Kanghua matter with Hu. According to the recollection of people close to Rui, Hu said at this time that work in Shanghai has to adhere to principles: a struggle has to be waged against bad trends. Hu Yaobang even went so far as to tell Rui Xingwen that he should prepare to become a member of the Politburo, emphasizing that historically the first in command in Shanghai had been concurrently a member of the Politburo.

Another new star in the Shanghai political arena who met with Hu Yaobang at the same time was the 35 year-old director of the municipal CPC committee Propaganda Department, Pan Weiming [3382 4850 2494]. Although only 35 years old at that time, Pan Weiming was surrounded by a number of extremely talented graduate students and college graduates who served as his able lieutenants. Cadres in bureau-level positions, people called them "Pan's helpers." They were virtually

able to dictate to Shanghai's propaganda and cultural departments. Pan Weiming was son-in-law of Liang Guobin [2733 0948 2430], the former deputy mayor of Shanghai. When Liang Guobin's name is raised, old-timers in the CPC all know that he was a cadre in the old public security organization, and that his former subordinates still hold power in the Shanghai Public Security Bureau. This was of substantial assistance to Pan Weiming in his vertical and lateral dealings in the Shanghai political arena. Following discussions between Rui Xingwen and Pan Weiming, a "super propaganda campaign" was launched that astounded even its leading character, Hu Yaobang.

Rui Xingwen and Pan Weiming hurriedly mobilized Shanghai film makers to make a film titled "Hu Yaobang in Shanghai" within the short space of a four day inspection tour that Hu Yaobang made to Shanghai. This was a pioneering undertaking in that not since 1949 had a documentary film been made of the number two person in the Party, particularly a film of such high quality and such excellence. Viewers unanimously said that it had been done well, and that it expressed the spirit of Hu Yaobang very well. Only slightly more than a week was required to process the film after shooting before sending it to the Shanghai television station where it was shown several times.

At that time, Rui Xingwen probably felt he had scored some points for himself, but when Hu Yaobang realized what had taken place, matters did not turn out well. During the filming, Hu did not know that it was a special filming for him, and after he found out how matters stood, he said the single sentence: People may misunderstand this as practicing the cult of the individual.

Several months later, Hu Yaobang stepped down, and this even became part of the indictment of Hu for establishing his own prestige. Rui Xingwen was the sponsor of this event, and reportedly Zhao Ziyang, who replaced Hu as secretary general, defended him. Nevertheless at the 13th Party Central Committee meeting in 1987, Rui Xingwen did not become a member of the Politburo. Reportedly, during a high level discussion of who should be a candidate for the Politburo, someone mentioned that Rui Xingwen had made an outstanding film about Hu Yaobang in Shanghai. Fearing that Hu Yaobang might make a comeback, all the oldsters opposed elevating Rui to membership in the Politburo. But for Zhao Ziyang, Rui just missed losing his position as secretary of the Secretariat.

During the student demonstrations of 1989, the foreign media reported Rui Xingwen as being a leader in sympathy with the student movement, when actually he was simply following Zhao Ziyang to a very great extent. Following the student unrest of February 1987, Rui gave a speech to the full body of researchers in the Shanghai Academy of Social Sciences in which he talked at length about opposition to bourgeois liberalization and criticized Fang Lizhi. This created an uproar among the

attendees, some passing notes around in the hall, and some making noisy protests.

#### The Strings That Deng Pufang Pulls

In 1988, the anger of the Chinese mainland public toward "official racketeering" became irrepressible. For a time, the Kanghua Corporation that Deng Pufang founded became a target for denunciation. Not just the masses at the grassroots level, but Party and government officials in power called for the prosecution of Kanghua under different circumstances. The "inner circle" mentioned that society was calling for the "murder of Kanghua to appease the public," which when it reached Deng Xiaoping's ears had escalated to wanting to make an example of Deng Pufang. In these tumultuous circumstances, even Zhao Ziyang wanted to make an example of Kanghua. As expected, the State Auditing Administration went into the main office of Kanghua located in Beijing. Reportedly, Deng Pufang was in Shanghai at that time.

During that period, the puppet emperor and the backstage ruler had an important talk, which possibly decided the status of the latter as the heir apparent. Reportedly, a member of the Deng family said at that time that since the gang of four had not done in Pufang, now some dared.... This affair was not without effect on old Deng. Probably he also realized that Zhao Ziyang was not a person to whom he could entrust the care of an orphan he was about to leave behind.

During that talk, Deng Xiaoping and Jiang Zemin spoke very sincerely; rumor has it that Deng Xiaoping regretted that he had formerly understood Jiang too little. When talk turned to how Zhao Ziyang felt about Deng Pufang, Jiang Zemin said: Zhao has strong Party spirit so he is unlikely to go too far, but a position has to be adopted about the Kanghua investigation. In addition, Jiang said that it was necessary to show that Deng Pufang had parted company with Kanghua, and he said that Zhao Ziyang should also be reminded that his own son was also running a corporation.

By the end of January 1989, Deng Xiaoping brought his family from Beijing to Shanghai where he both received medical treatment and held talk after talk with Jiang Zemin. Then Deng telephoned Zhao Ziyang and said: "Comrade Jiang Zemin and I are personally taking charge of affairs from Shanghai" as if to say that there was a second central committee in Shanghai. Nevertheless, no one predicted that Jiang would subsequently be promoted so high.

In short, Jiang Zemin's rise seems to be inseparable from Deng Pufang's pulling strings.

**Role of Party Committees in Judiciary, Trials**

91CM0277A Hong Kong TANGTAI  
[CONTEMPORARY] in Chinese No 62,  
2 Feb 91 pp 4-5

[Article by Liu Jui-shao (0491 6904 4801): "Mainland Cases Are Decided by Party Committees—Several Democracy Movement People in Succession Are Thrown Into Jail Unjustly"]

[Text] (Note: Wang Dan [3769 0030], Bao Zunxin [0545 6690 0207], Ren Wanding [0117 3979 3957], and other people from the democracy movement have been thrown into jail one after another. I have interviewed some of them, and some are my friends. But I am not writing this article to express my feelings about my friends going to jail, and this is certainly not, as some have said, a case of like grieves for like. Rather, it is because the tragic situation in China's trial and judicial system has truly filled me with sadness and indignation. The sadness is not knowing when this trial and judicial system with "the party deciding everything" can be relegated to the historical museum. The indignation is that the land of the Yellow Emperor is about to enter the 21st century and still suffers the disgrace of despotism. The sadness and indignation make it difficult for me to express my feelings; I cannot keep from conveying to you the "nationalism" that I have seen and heard and personally experienced living in Beijing. I have no desire to reveal secrets or spread scandal, it is only because when there is injustice across the land, we cannot be happy unless we speak out. The fact that the authorities turn a deaf ear to the people's complaints about a longstanding ugly disease is truly a national tragedy!)

This article will talk mainly about two things: (A) Whether China's trial and judicial systems are independent. (B) Whether China's trial and judicial procedures are open.

**A. Are Trial and Judicial Procedures Independent?**

1. The Trial Committee System—In actual current practice, the first trial of ordinary cases can be the responsibility of the court itself, but the judge does not have real authority to handle by himself those cases with broad implications or extensive impact, or those that have drawn the attention of the outside world, nor does the collegiate bench (the judges or jury hearing together) have this power. This authority is in the hands of the "judicial committee." This committee actually is an organization within the court on a par with the party committees of other party and government organizations. Committee meetings generally are presided over by the head of the court, and people with expert knowledge related to the case are added. Originally, this could draw on collective wisdom and absorb all useful ideas, and after the Thirteenth National People's Congress (NPC) in 1987 proposed "separating party and government," the judicial committee developed in a rather independent way. But in the latter half of 1988, with the

resurgence of the conservative forces the judicial committee gradually returned to its true nature of being responsible to the party committee system, to the point that most of the members were from the party committee or appointed by the party committee. They do not directly try cases and make judgements, but they are empowered to make decisions behind the scenes, and the court is required to comply. This is what people in the country often call the strange judicial phenomenon that "the person who sees the patient does not write the prescription and the person who writes the prescription does not see the patient." A great many judicial committee members give primary importance to their party membership. Publicly they are part of the state system or specialists, but they all are restricted by party discipline. Although there perhaps are nonparty members on the committee, it is difficult for them to constitute a majority. So, generally speaking, they all must obey the party and the higher echelon. This is the so-called "one troupe, two names" (i.e. the judicial committee appears to be independent, but it really is controlled by the party committee at the same level and the next higher level). Moreover, in all the cases where the defendants are cadres from the level deciding the case or higher, instructions on how to dispose of the case must be sought from the party committee at the next level. The party committee at the same level also is powerless to decide.

**Judges Have Great Hindrances in Trying Cases**

2. Independence of the Court—In the first place, the courts are not economically independent and do not have a separate listing in the state budget. The courts get the same treatment as other government administrative organs at the same level. Some do not even have a guarantee for fiscal allocations. If the higher echelon appropriates few funds, it is difficult for them to work. So, situations occur where a court temporarily stops business because of a lack of funds (frequently at the township and county court level, seldom at the municipal court level). Moreover, if a complaint is lodged against the court because it offends the local government or offends other departments when disposing of some cases, it can run into financial troubles. XINHUA's internal CANKAO reported this type of occurrence in Zou County, Shandong.

Because courts do not have a special position, when a cadre at the same level is charged, frequently it is necessary for the higher echelon or an authoritative person to give the order. Otherwise the accused will not appear in court and the court is utterly helpless. In 1987-1988 this type of case occurred in Baoding and was reported in a Beijing newspaper at the time.

In addition, the head of the court has a direct say in the promotion, pay raises, opportunities for advanced study, and even the allocation of housing of court judges, producing the objective effect of the judges being primarily responsible to the head of the court. Whether that

court and consequently its judges can decide cases independently all depends on the degree of enlightenment of the upper echelon.

**It Is Not Permitted To Defend Democracy Movement People Without Approval**

3. The Jury System—Just as was said above, the collegiate bench made up of judges must also take orders from the party's "judicial committee." We can imagine how independent the jurors are. Moreover, on 2 September 1983 the NPC Standing Committee revised the "Organizational Law of the People's Court," changing Article Three from "The first trial in a people's court shall be conducted by a jury system of people's jurors" to "The first trial in a people's court shall be conducted by a collegiate bench made up of judges or by a collegiate bench made up of judges and people's jurors." This actually demoted the juror. Moreover, the juror also lives in the presentday "unified system," suffering hindrances everywhere. So, practice has proven that it is hard for jurors to produce substantial results.

4. The Lawyer System—In the occasional nonsensitive case the lawyer can play a role. This is one result of reform of the Chinese legal system. But, until laws and the lawyer system are sound, it is inevitable that people will get the feeling that they exist in name only. The establishment of all legal advisory offices and law firms (including government run, group, and private) is approved by judicial administrative organs, and they come under their organizational leadership and professional oversight. Certainly every organization must be administered and supervised by a government department. But in sensitive cases this supervision becomes control and the lawyer's role is limited to pleading for leniency for the accused. A friend from Beijing said that, for example, in the present trials of democracy movement people, the Ministry of Justice as early as last November issued two internal directives explicitly forbidding lawyers from defending democracy movement people without the approval of that ministry. Moreover, all lawyers were required to submit a draft of the brief to the Ministry of Justice beforehand. Several families of the accused can prove this point (see Asian Human Rights Oversight Organization's "Crude Trials in Beijing").

5. Interference From Important Personages and Central Authorities Setting the Tone—This is the key factor affecting independence of trials and the judiciary. For example, the Chinese Communist Political Bureau had a meeting to discuss the trials of democracy movement people and Li Peng further determined to act strictly. (He indicated that Wang Juntao [3769 6511 3447] is "a senior politician and we cannot cause future calamity.") Since 4 June official media have constantly published articles attacking the people who were arrested. This is publicly setting the tone. Recently, Yuan Mu [5913 2606] revealed intentions when answering a reporter's question. Although he said that it was inappropriate for him as a public official to speak, he said that generally

speaking the democracy movement people would be "dealt with leniently." This is the Chinese Communists' consistent course of action. After the tone is set internally, it is revealed to the outside. This also reflects the practice of "establishing guilt before the trial. (If guilt is not established, where does "dealing leniently with" come from?) Under China's present system, the courts responsible for trials and even the "judicial committees" rely on the tone set by important personages.

**B. Are Trials and Judicial Procedures Open?**

1. Trials Actually Are Conducted in Secret—XINHUA reported that relatives, friends and various segments of the public witnessed the trials of the democracy movement people. But the Chinese Communists' actual procedure is to generally let people witness nonsensitive cases and those that most people ignore (people are not interested and the audience is usually very small), but in sensitive cases and those that people pay attention to the audience is strictly limited. There are several ways. First, all those receiving permission to witness a trial go through a selection process. (Chen Rui [7115 6904], the person in charge of the office of the Beijing Municipal Intermediate People's Court, verified this point in responding to an Overseas Chinese delegation visiting Beijing; see this issue, p. 44) After the selection, they issue tickets. Generally speaking, the defense receives few tickets and the authorities control many tickets by strictly allotting them. In Beijing I came across a copyright infringement case. The accused, Ding Jie [0002 3381] only received slightly more than ten tickets to the gallery of the Beijing Municipal People's Court that seats over 300. It is the same for this trial of the democracy movement people. Tickets for relatives are barely enough for the family to attend, and [the authorities] demand to know beforehand who might be attending.

It also is difficult for reporters, foreigners and people from Hong Kong, Macao, and Taiwan to witness a sensitive domestic case. In this trial of democracy movement people, Chinese reporters receiving permission to attend were given strict limitations and a unified script of the trial. Generally there are unified standards and discipline in publicly disseminating the case in the media. For example, the Ministry of Justice has given internal directives and regulations to publications under its auspices such as ZHONGGUO FAZHI BAO (now ZHONGGUO FAZHI RIBAO) and MINZHU YU FAZHI that all reports and literature involving cadres at the bureau level and above must first be approved by higher echelons before publication. XINHUA dispatches also have similar directives. Announcements tacked up in front of courthouse gates also are determined by the sensitivity of the case. Announcements for this trial of democracy movement people were all tacked up just before the trial to avoid arousing too much attention.

2. The Degree of Publicity in the Detention Period—This time the detention period after the arrest of many of the democracy movement people greatly exceeded that stipulated in the Code of Criminal Procedure. Quite

a few were detained for over a year. The Chinese Communists claim they have not violated the law, because while they were deliberating what action to take or before they formally charged them, they could use a great many ways to detain the "targets of dictatorship," such as residential surveillance (i.e. the object of surveillance was set up in a specially designated place of residence, such as the guest house of the Ministry of Public Security, and not permitted casual contact with the outside world. Yu Haocheng [0060 3185 2052] received this kind of treatment), taken in for investigation (details below), and even the use of party discipline (Believing that a certain party member might endanger the party, it is necessary to isolate him from the outside world.). The authorities did not look on these as criminal procedures. So, after a great many democracy movement people were arrested, the authorities did not go by the Code of Criminal Procedure and did not publicize it. Wang Dan's arrest, for one, was only indirectly acknowledged by Yuan Mu in response to a reporter's question. The authorities generally notified the families of those arrested. This, after all, was progress from before.

#### **"Taking in for Investigation" Often Creates an Unjust Case**

It is worth noting that "taking in for investigation" is not found in the Code of Criminal Procedure. In the 1960s, the Chinese Communist Central Committee transferred approval of an internal document of the Ministry of Public Security and the Internal Affairs Department party organizations beginning the implementation of taking in for investigation. On 31 July 1985, the Ministry of Public Security issued Internal Document Number 50 "Notification on Strictly Controlled Use of the Measure of Taking In for Investigation." The document reflected the real situation. Those under investigation could have their person searched, and could be taken into custody, interrogated, and [made to] wear restraints (i.e. instruments to restrain them). Because the authorities used "taking in for investigation" to detain those suspected of crime, the situation of "rather treat unjustly than release" became quite widespread. According to statistics from April and May 1986, of those throughout the nation taken in for investigation, only 36.2 percent were truly considered to require investigation, and in some provinces it was only 10 percent. The Ministry of Public Security acknowledged this situation in Internal Document Number 60 of 31 July 1986. The situation described above that often arose in internal policy and actual practice was never publicized.

**3. Reeducation Through Labor Need Not Go Through the Courts**—According to the State Council's "Decision on Reeducation Through Labor" and "Supplementary Regulation on Reeducation Through Labor," investigation and approval requiring someone to undergo reeducation through labor could be granted by the provincial, autonomous region, or municipal people's committees (abolished in 1966) or organizations entrusted by them, or the reeducation through labor administrative committees (implemented after 1979), and did not need to go

through the courts at all, and certainly did not require external control. A great many young "criminals" became prisoners this way.

On the basis of various situations described above, my conscience tells me that I cannot say, "China's present trial and judicial systems are independent and open." Certainly, we should not deny that the Chinese legal system has made some achievements in the last ten years or so. But after all "the road is long and much remains to be built!" Comrades still need to work hard.

#### **Politically Persecuted Writer, Professor Extolled**

*91CM0327A Hong Kong CHING PAO [THE MIRROR] in Chinese No 163, 10 Feb 91 pp 42-44*

[Article by Li Hsiao-chun (7812 4562 0689): "Yuan Hongbing Listed as Number-One Subject for Investigation at Beijing University"]

[Text] *Yuan Hongbing [5913 4767 0393] is an outstanding teacher at Beijing University, and has won the schools' "exemplary teacher award" several times. Thirty-eight years old in 1991, he is deeply loved and esteemed by the students.*

*A collection of prose poems titled, Winds in the Wilderness that he wrote between 1986 and 1988 have now been "criticized from the higher plane of principle" as "reversals of the verdict on 4 June" (the 4 June incident occurred in 1989), and even alarmed high echelons of the Chinese Communist Party.*

#### **"Beijing University: The Cradle of the Nation"**

In the small hours of 4 June 1989, no sooner had a 17-year-old youth stepped on to the Muxi crosswalk in Beijing than a hail of bullets raked the ground. He fell beside a classmate, and died from loss of blood on the way to the hospital on the flatbed truck of a Beijing resident who had rescued him, bringing to a close a life as rosy as the dawn. He was the most outstanding student at the important Beijing middle school affiliated with People's University, who had placed fourth in his sophomore year class. On the day that he left the world, he said to his mother: "Mama, I'm going to work hard for a month and then I'm going to take first place on the test." The first 20 students at People's University Middle School may attend the university of their choice in Beijing, and are exempt from exams by being directly recommended. He had long ago definitely selected Beijing University's physics department. He said, "Beijing University: That's the cradle of the nation."

This young man and his ideals have now become my cherished memory, particularly today when I am about to write about Beijing University and a man from Beijing University.

#### **"Top-Seeded Player" for the Great Purge**

Once the sound of gunfire faded on 4 June, a great purge followed closely behind from the Central Committee to

local governments, from the Party Secretary to the secretary of grassroots units, from ideological and cultural life to military life, and from factories to school campuses. It was particularly severe on the Yanyuan campus of Beijing University.

A high-ranking Communist official said: This disturbance had four headquarters, one was at Zhongnanhai at that time; one was the American Central Intelligence Agency; one was Beijing University; and one was Tiananmen Square.

As soon as it entered the Yanyuan campus, the investigation team listed the Beida Autonomous Federation of Universities, the broadcasting station, and the teaching and administrative staff backup group as the main subjects of investigation. It also announced that the "Beijing University teaching and administrative staff backup group" was the sole "illegal teaching organization" in the country. The situation regarding Beijing University's teachers (mostly young teachers) was as follows: During the 4 June incident, one was beaten to death (Xiao Bo [5618 3134] of the chemistry department, leaving behind a young wife and twins in diapers); one was arrested (Chen Po [7115 0980] of the political science department); one disappeared and his whereabouts remain unknown to this day (Zhang Mingjiu [1728 7686 0036] of the education department); and more than 70 people were termed subjects for investigation, three of whom were suspended from duties and from classes, had their position titles canceled, and were deprived of wages and assigned housing. These three were Yuan Hongbing, a lecturer in the law department, Zhu Shanhe [2612 0816 0735] in the economics department, and Chen Yuguo [7115 3768 0948] a lecturer in the political science department. Yuan Hongbing headed the list, being termed a "top seeded player."

State Education Commission Vice Minister He Dongchang [0149 2639 2490] said: "The middle age and young teachers at Beijing University were grave diggers for the Communist Party. They were the source of the turmoil." Newly appointed Beijing University CPC Committee Secretary Wang Jialiu [3076 1367 6981] (the former deputy secretary of the Beijing Municipal CPC Committee) also said in a report to high ranking Party officials at Beijing University: "Some of the young teachers at Beijing University were the real organizers and the braintrust of the students. They used both open and secret methods for organizing the students."

The charges that the investigation team brought against the "teaching and administrative staff back-up group" were as follows: holding of a school-wide meeting of staff members and workers on 16 May 1989; holding a school-wide meeting of Party members on 18 May; organizing a hunger strike of "Beijing University Party members and teachers Group" on the east Tiananmen reviewing stand on 19 May; organizing a large teacher demonstration on 23 May; and planning to block military vehicles... Yuan Hongbin was accused of being one of the overall planners of the above events. The "Open

Letter to All Chinese Communist Grassroots Cadres" that he drafted was accused of "raising the banner of saving and protecting the Party to split the Party."

#### The Subject of Investigation Having "the Most Abominable Attitude"

With the re-registration of Party members, investigation work throughout the country is now basically concluded, but after a year and a half, it still drags on at Beijing University and is difficult to wind up. The real reasons are that from students to teachers at Beijing University, an overwhelming majority will not give in to pressure, intimidation, enticements or humbuggery. Their universal attitude is one of no cooperation and no admission of fault. The investigation team can produce no proof against the subjects of the investigation so it cannot convict them of any crimes. Vexed, the school authorities put the blame on Yuan Hongbing whom they have termed "the subject of investigation having the most abominable attitude," and they maintain that this "abominable attitude" influenced others.

They have further "crowned" Yuan Hongbing with complicity in two matters. These two matters were especially important matters that alarmed "Zhongnanhai."

#### Authorities Fear a Replay of the "Li Shuxian Incident"

No sooner was the torch of the Asian Games extinguished than Beijing's streets were hung with red bunting proclaiming, "The People Are Masters of Their Own Destiny; the People's Representatives Have Been Chosen By the People." At the time of changes in district and county people's representatives in Beijing Municipality, elections were by "number of people ballots." In accordance with procedures prescribed in the "election law," a voter group consisting of 10 or more people could propose one candidate. A certain number of groups made up an electoral district, and within each electoral district, only two candidates names remained following screening. On voting day, the electorate voted by circling the name of their choice.

On 22 November 1990, when Beijing University conducted the first nomination of candidates, the six electoral teams in the law department, and two electoral teams in other departments nominated Yuan Hongbing. Thus, the top subject for investigation at Beijing University could become the candidate nominated with the largest number of votes as district people's congress delegate. The Beijing University authorities became extremely alarmed, predicting a replay of the "Li Shuxian [2621 3219 8300] incident" four years earlier. They immediately went to the highest authority, informing the Politburo of the Chinese Communist Party Central Committee. The Politburo issued a directive at once: "The serious event of the election of the subject of investigation, Yuan Hongbing, is positively not to be permitted to occur." Immediately thereafter, the National Education Commission demanded that "any methods may be used to force the electing students

to withdraw their nomination of Yuan." Beijing University president, Wu Shuqing [0702 2885 7230], immediately called in the head of the law department and the CPC committee secretary for a reprimand, demanding that they convince the students in any way possible to withdraw their nomination of Yuan. Beijing University CPC Committee deputy secretary Lin Yanzhi [2651 3508 1807] (a member of the "crown prince party" who stamped into Beijing University through the blood of the 4 June incident) openly threatened the students at a large meeting: "Any Party member who proposes Yuan Hongbing as a candidate, will be stricken from the Party rolls." Someone yelled: "Who will you let us nominate?" He shamelessly replied: "You may elect me!" which caused an uproar in the audience. He added: "Classmates should not be swayed by emotions, nor duped by outsiders." The students replied with one voice: "You're from the outside. You are not from Beijing University." This certain Lin was an ideal son-in-law of the deputy chairman of the CPPCC who, because of a difference in view with his wife about the 4 June incident, was now in the midst of a revolution in his marriage.

Team leaders in each department received orders to "do work" with students one on one. At a meeting of electoral team leaders in charge, someone asked, "Doesn't this violate Yuan Hongbing's right to be elected?" The reply was, "This is a political necessity. Although no announcement has been made stripping him of his political rights, he is a key subject for investigation; thus, his election as a people's representative cannot be permitted."

#### ***Winds in the Wilderness* Blows Through the Beijing University Triangle**

Slightly more than half a month away from the general election, in early December 1990, at the most sensitive spot on the Beijing University campus, the triangle at the entrance to the New China Bookstore, an advertisement for a new book was posted. The words, *Winds in the Wilderness*, written in rough hewn characters stood out from three very dark slanted lines, and a brief sentence filled with poetic attraction read: "A mad, bleak, heavy and stirring song. It sends greetings to twilight in the wilderness." At the top right stood the author's name, Yuan Hongbing. It made some people happy and some people worried.

Very soon everyone at the school knew that *Winds in the Wilderness* was the hottest selling book on campus, with several hundred copies being sold in two weeks. A campus CPC committee cadre with a "keen sense of smell" wrote to the National Education Commission as follows: "The refrain of *Winds in the Wilderness*, a collection of philosophical prose by Yuan Hongbing, the key subject of investigation at Beijing University, is a dirge for reversal of the verdict on 4 June. It preaches absolute freedom. It is a new counteroffensive to regain lost ground for bourgeois liberalization. The book is extremely inflammatory causing a very great uproar among the students, and it has created an extremely

abominable influence. The students term the author a 'Chinese Nietzsche.'" On the strength of this, the National Education Commission instructed the Press and Publication Administration to investigate the book thoroughly.

Contemporary Press suddenly became like a place struck by a tornado, with constant letters and telephone calls. In a single day 17 volumes were sent for review. The book titled *Winds in the Wilderness* also appeared on the "inner circle's" list of special reading. Very shortly, a golden tablet was handed down from on high: "Comrades Dongchang and Tengteng [3326 5671]: Investigate the *Winds in the Wilderness* matter doing all possible to eradicate its influence. Li Tieying [2621 6993 2503]. While gathering forbidden books from everywhere, Contemporary Press also had to provide background to their publication.

#### **Several Time Recipient of "Outstanding Teaching Award," Yuan Hongbing**

Yuan Hongbing was an outstanding teacher at Beijing University, receiving the school's "exemplary teaching award" several times. Thirty-eight years old in 1991, he was deeply loved and esteemed by his students.

This writer knew Yuan Hongbin for a very short time, but he felt a very great affinity toward him, which remained an unexpressed secret. On first meeting Yuan Hongbing, I found it difficult to imagine him as a teacher in the law department. He looked like an artist from a mountain grassland. My judgment might also be considered worthy of the deep affinity between us. He was born and grew up in Hohhot, Inner Mongolia.

Yuan Hongbing loved philosophy from childhood, and he had thoroughly read Hegel, Kant, and Nietzsche. During the "Cultural Revolution," he had wandered the grasslands of Inner Mongolia carrying a tattered old satchel on his back, traversing the craggy and dreary Yinshan Range. Gazing at the blue sky and white clouds of this boundless wasteland, he unraveled difficult philosophical puzzles in his mind. The desolate and unpopulated grassland made him feel as though moving in a bleak and desolate dreamscape. To express enthusiasm for life, he would bellow madly like a wild man; he generated a feeling that one cannot ever forget.

No fate and externality should become the controller of the spirit. Human spirit is a lofty and revered thing that has the right to design and improve the world. This was his thought on a philosophy of life.

In 1986, Yuan Hongbing wrote his first collection of philosophical prose entitled "Endless Fascination," to which he appended an "author's interpretation." It was published by Huaxia Press. In 1988, he ran a "lecture course on new heroism philosophy. He believed that western idealism and value concepts were the laurels of civilization that the courageous ones there won in the daunting and surpassing struggle they waged against fate. Only when rooted in blood and tear-soaked history can

value concepts become a motive force in real life. Thus, attempts to use the principles for which other peoples have paid a heavy price in order to arrive at a means of saving the old peoples of the east is only an illusion. He advocated a kind of "new heroism." He believed that the various crises currently facing China are, in the final analysis, the decline of a people under autocratic political oppression. He believed that China's hope lay in the process of solving domestic and foreign crises, and in the process of conducting a life and death struggle against desperate fate to create a new and brilliant persona. Yuan Hongbing was possessed of a poet's spirit and writing skill. He said, "I long to become a man who will leave these spiritual conceptions to dare to embrace a vivacious woman, and to dare to look directly at the sun. Only such a life holds hope for creating miracles." "A will like iron, a personal character like a sword, a temperament like poetry, and a mind that has a free spirit like the blue sky is the only way to be a hero. A hero is magnificent because a free spirit is the essence of beauty. A hero is courageous because of his ardent love for freedom, and his profound hatred shapes his conviction about dying a hundred deaths for freedom without regrets." These ideas and words overwhelmed the young men and women university students and became watchwords engraved on their minds. However, Yuan Hongbing's romantic feelings that stemmed from the barren desert and grasslands, and his unflinching masculine spirit stood out like a single tree among the teachers at Beijing University.

The "new heroism philosophy lecture course" caused Yuan Hongbing to write his second philosophical prose poetry collection entitled "Animal Blood Sacrifice." In May 1990, it was published along with "Endless Fascination" under the title "Winds in the Wilderness."

It was this book containing a collection of artistic prose poetry originally written in 1986 and 1988 that was regarded as a "reversal of the 4 June verdict," and a new counteroffensive to regain lost ground for bourgeois liberalism to become a new orientation in China's literary forum.

#### **Yuan Hongbing Faces a "Two Eliminations" Fate**

The hardline faction at Beijing University waited until Yuan Hongbing's fate was grimmest to advocate "two eliminations" against him, namely expelled from the Party, and from his job. Reportedly, both the National Education Commission and the Beijing Municipal CPC Committee intended to show mercy. Another faction felt that Yuan Hongbing was a talented person such as Beijing University could not easily find, and an outstanding talent in Chinese educational circles. He should be protected and loved.

After being forced to accept Beijing University's order to "suspend classes," Yuan Hongbing provided "La Derniere Classe" to the students who loved him and the students he loved just as Alphonse Daudet had done. His final words were, "No matter where fate may force me to

go, even to the Gobi, I will always cherish my students... I want to share a sentence with the students and that is that in an individual's existence, there is intuitive knowledge and justice, and ideals and convictions." The 200 law department students sitting there applauded for five minutes, and many of them choked with sobs.

"Science and democracy" were the spirit of the "May 4th Movement." A 17 year old middle school student who still knew that Beijing University is the cradle of the nation is the hope of our nation. If bullets took away his blossoming life, wiping out so precious a hope for our nation, and those who want to annihilate those who rock the cradle, persecute teachers, and condemn to death the spirit of Beijing University democracy, then what will become of the nation?

All Beijing University people, and all knowledgeable people everywhere who care about education in China have their eyes riveted on Beijing University and are concerned for Yuan Hongbing.

Secretary General Jiang Zemin has repeatedly announced that "policies toward intellectuals are very lenient." However, it is hoped that Chinese at home and abroad will not lose hope time after time. Once hope is lost, recapturing people's feelings is difficult.

#### **Wan Runnan Discusses Role, Future of FDC**

*91CM0276A Hong Kong PAI HSING [THE PEOPLE] in Chinese No 233, 1 Feb 91 pp 41-43*

[Report: "Wan Runnan Discusses the 'FDC' With Chinese Students in England"; transcript edited for print by Wang Hao (3076 3185)]

[Text] *On the afternoon of 21 December 1990, Wan Runnan, chairman of the Federation for a Democratic China [FDC], held an informal discussion with some 60 Chinese students at Oxford University's St. Anthony's College in England. The discussion lasted more than three hours and went into great detail on many topics. The following are excerpts from an audio recording.*

#### **The FDC's Future After the Second Members' Representative Assembly**

Wan: First, let us discuss the major changes in the FDC after the "Second Assembly."

One, the FDC is more realistic about its own position. Immediately after the 4 June massacre, we were all very angry at the Communist Party, and we wanted a mature opposition party to replace the Communist Party, and some people's hopes were raised when the FDC was formed, and some even looked at it as a government in exile. This was very unrealistic, because all political organizations must go through a maturing process. That is why at the "Second Assembly" the FDC has defined itself to be a slowly maturing political organization striving for the goal of becoming an opposition party.

Two, instead of a star-like organization, we want to become a pragmatic organization that operates according to the democratic process. When the FDC was first formed, we needed some influential, well-known personalities to attract people's attention. After a year, as the FDC enters a phase when it is ready to operate by the democratic process, what it needs now are down-to-earth organizers who understand the democratic process. The newly elected council members I am sure are lesser known but are of better quality.

Three, our assessment of the situation is more objective, and we are ideologically better prepared. Last year when I first got out, many people were saying that the Communist Party would collapse at any time. Now that we have calmed down, we are ideologically prepared for a long, arduous struggle abroad. Of course, we are optimistic about the long-term situation. As for the short- to mid-term assessment, the path may be fairly tortuous. If the FDC can remain low-keyed, it will do us a lot of good as we settle down and truly and practically prepare ourselves for the changes that will come tomorrow.

Today, at a time when the prodemocracy movement is facing so many problems, we hope that even more people will join the FDC, because it is vital to China's democratization to have an organized opposition force, especially because what the Communist Party fears the most is organized opposition. Some people say in private that they do have feelings about 4 June and are sympathetic toward the students, but they have not joined any organization. Why not? The communists know that only an organized force can do any real damage to their one-party dictatorship. To join the FDC now is to say "no" to the Communist Party's one-party dictatorship and to cast a vote for China's democratic future.

What can one accomplish by joining the FDC? At the present stage, there are at least four things we can do. First, we can mobilize the international community. Since China opened its door, that door has remained open and cannot be closed again. Therefore, if we mobilize the international community and public opinion to put pressure on the CPC, it can make a difference. Second, we can help expand the organization and form many alliances. The Communist Party will not voluntarily give up its one-party dictatorship. It will have to be forced into doing so. A mature, organized, prepared opposition power capable of forcing it into compliance is thus indispensable. The Communist Party has a great fear of organized opposition, especially organized alliances. Third, we must aid, and support the political prisoners and help their families. Fourth, we must study the issues, draw up measures to deal with all situations, formulate theories that will prepare us for the changes in China, and as we make these preparations, we should gather talents for a democratic China.

We want to uphold our banner, mobilize the international community, expand the organization, form broad alliances, make human rights and aid our theme as we

launch our mainland work, study the issues, and prepare countermeasures. Indeed, there is much work for the FDC to do.

The FDC must become an independent, organized, democratic political force.

Independence means, first, we will not go back to the system; we want to be independent of the Communist Party. In other words, we will not accept amnesty. Independence also means independent of all other political forces. We welcome cooperation from organizations with similar goals, but we will not attach ourselves to any other organization, because that is not our political aspiration.

The FDC is an organized political force. Without organization, it will be impossible for us to make a real difference in China's future political structure.

The FDC is a democratic organization. This refers not only to its basic program and desire to establish a democratic system in China but also to its own operation which is also a process of learning all about democracy. Democracy is not just a theoretical concept. It is a lifestyle. This kind of practice at the operational level will gather experience for China's future democratic system and will save us time in the future.

Thus, the FDC, as a very important practical opportunity abroad, requires everybody's participation.

#### The Human Rights Issue Is at the Heart of Our Work

Audience: I just came back from the mainland, and I have the feeling that the citizens at home either do not understand or they misunderstand the FDC. If the FDC focuses its aid to political prisoners on well-known personalities, the grassroots public will feel alienated. I would like to know if the FDC has any specific propaganda directed at the mainland public?

Wan: In breaking down our mainland work, the theme of aid includes sending information, letters, and broadcasting to the mainland. However, at the present time, we lack funds, facilities, and channels. We can only do things step by step. Meanwhile, we are gradually linking up with the underground groups in the mainland.

Let me say a few more words about human rights. Among the Asian countries, China indeed has a fairly long history of fighting for a democratic, constitutional government, and yet, events like the 4 June massacre are still happening. This is related to the fact that for more than 100 years, democracy has been treated as a means to make the country financially rich and militarily strong rather than as a system that protects human rights. Therefore after the 1989 prodemocracy movement, emphasizing the concept of human rights has gained important progressive meaning. Among the things we want to achieve in China in the future, "protecting basic human rights" ranks first among the FDC's four major

guiding principles. The issues of aiding political prisoners, protecting the rights and privileges of the students abroad, and mobilizing the international community are also related to the human rights issue. The changes in the Soviet Union and Eastern Europe cannot be separated from the West's refusal to ease up on the human rights issue. If we have a fulcrum, we can lift China's system of autocracy. This fulcrum is human rights. The heart of the FDC's work today is the human rights issue.

**Audience:** We all hope to see some changes in China. The crux of the question is, what kind of change? The FDC constantly talks about how it will become an opposition party after the change and how it will get more votes than the Communist Party in an election. But you have never given the citizens any thought. You have never talked about how you can make life better for them, how to avoid serious social upheaval. What good will it do if change means decades of fighting among the warlords? Thus, I advocate a peaceful, gradual change based on slowly improving the country's living standard. China is not like the Soviet Union. After some 70 years, Soviet socialism has completely demolished its commodity-economy base. In China, after a decade of reform, the citizens know how to make money; they are commodity-economy minded, and they are ready to accept Western democratic ideologies, and therefore peaceful evolution is possible.

Here, a very important premise is information exchange. People should be able to go in and out, and China's economy should help the country stay open. Today, are we not seeing the official newspapers talking about expanding the reform? True, a lot of that may be just talk, but they have given us the excuse to start an exchange of information. Under the circumstances, I have reservations about the FDC's effort to recruit more members, because many of us do want to go home. "Do not do unto others what you do not want done unto you." The FDC must put itself in the foreign students' position. This is no longer 4 June. Back when the students were being forcibly put down, any hot-blooded youth could raise his or her objection. But that was a year ago. Now we must think calmly about what we can do to benefit the country and the individual.

**Wan:** True, we cannot wait for changes to come; instead we should bring changes. How? By seizing the human rights issue and the 4 June incident, because 4 June was a very crucial event in China's political development. In a certain sense, the people are upset today because of the 4 June incident; the split between the localities and the central authorities has become even more apparent since 4 June; the Communist Party's internal power struggle is also centered around the 4 June incident. Thus if we seize this knot tied by the 4 June incident, make human rights the fulcrum, and popularize the human rights concept, we can bring changes. We must not overlook the importance of this incident. Well-known Czech intellectual (Kunder?) once said, after the suppression of the Prague Spring, everyone who supported the government only did one thing, and that was to try to forget the whole

incident, and all the intellectuals and democratic forces who had intuitive knowledge wanted to do something else, and that was to make people never to forget the incident. Thus, it is not just a slogan to urge everybody not to forget 4 June; it is a real, practical part of the work to effect changes.

Naturally, I agree entirely with the idea of peaceful and gradual changes. If you read the FDC's white paper (referring to the article, "China's Current Situation and Our Strategy and Tactic," MINZHU ZHONGGUO, No 5,) you will know that we oppose the kind of revolutionary, tumultuous uprising, because the result of that kind of disturbance is not necessarily the establishment of a democratic system; it may be a new kind of autocracy to replace the old dictatorship. It is also our opinion that without the decade of reform and opening up, there would not have been the 1989 prodemocracy movement. But the decade of reform has meant only economic changes; there has been no political reform. Without the two reforms giving impetus to each other in a benign way, serious problems will arise. This is like needing two legs to walk. If the leg of political reform does not move, and the leg of economic reform takes three steps, we will be moving around in circles. Thus, on the surface, we share a common language with the Communist Party, but in substance, we are very different: They talk about stability above all else; we too oppose creating great disorder under heaven. Today, many ordinary citizens say "people want change, but people fear chaos." But what the Communist Party is saying is, only by letting them control everything can there be stability under heaven, and what we believe is that only by ending the Communist Party's one party dictatorship can there be long-term, true stability in China. The essential difference lies right here.

I am here to urge everybody to join the FDC, but whether each individual joins or not is up to the individual. To talk about democracy is to respect personal choices. Of course we must also consider the question of some people wanting to return to China. We need not disclose our identities. I suggest that more and more people should go home. The mainland is the battleground. But this is not in conflict with our need to get organized. You should join us and then go back home. Only in this way is there hope for China. If all of us join the FDC, what can the Communist Party do to us? If everybody says "no" to the Communist Party, their autocratic system will collapse.

On the other hand, the issue of the basic rights and privileges of the overseas students can be resolved more easily if there is an organized force behind it. The FDC should represent those who say "no" to the Communist Party to negotiate with the Western governments and strive for more rights. If we ignore the basic rights of the FDC members and the masses of students studying abroad, everything we say about human rights will be futile. In fact, this is also very good training in political democracy. If we form this kind of democratic habit

today, in the future, when we return home and face a democratic election, we will truly be able to fight for the citizens' rights.

### Ways To Transform China's Economic System

**Audience:** You said that the human rights issue, including the welfare of the students, has top priority among the FDC's current tasks. Pardon me for being blunt, but I think you are putting the cart before the horse. The basis of a political organization's existence is to point the way out for the average citizen. Any organization must have centripetal force. This does not mean money but the ability to inspire and move people. Thus, the question before the students is, will I be able to serve China even better by participating in the FDC? One should not join for any other reason. If choosing the FDC is for the sake of one's personal benefit, then I think the motive is impure.

China's problem is not that it will not change but that the change will be haphazard. China has undergone change after change for the last 40 years, and still it remains a backward country. This is the problem. As a political organization, the FDC should not just point out what China's future should be but how we can reach this goal in a step-by-step, well-prepared manner. In this regard, I have yet to hear what the FDC has accomplished.

**Wan:** The FDC's future plans have been discussed at the "Second Assembly" and also in the white paper. The latter mainly discussed three issues: Assessment of the current situation; how we intend to deal with that situation; the FDC's views on a series of basic issues concerning China. If we needed a fundamental basis, that would be our basis, our political guiding principle. But if there is a fundamental there must also be an incidental. In China, there are many talented people who can discuss important issues, great theories. But first, theory must tally with common sense. China's problem often is not the lack of profound theory and great plans but the tendency to make common sense mistakes. Second, theory must conform to usual practices. China's development has always followed the world orbit. How do we set up a free economy? How do we run a democratic government? These are not matters we have to figure out from scratch. There are many experiences from the West we can simply apply. Third, theory must be maneuverable. What ultimately can we do? What can we do now? Aiding the political prisoners, being concerned about overseas students' rights—these issues may sound incidental, but only if we have the fundamental as well as the incidental can we do things properly.

**Audience:** The objective of the FDC is to build an opposition party, but at present, your economic program has only mentioned "develop the civilian-run economy." This is very inadequate. Of course, everybody agrees that developing a free economy is more important, because many of the concepts of democracy are closely tied to the concepts of a free economy. But does developing a free economy necessarily mean taking the old capitalist road

of primitive accumulation and private economy? Free economy means the state refrains from meddling in the economy. This is not quite the same as private property rights. Marx advocated that capital should be controlled by the workers, the state should be controlled by society, and the government should be controlled by the people. Past generations have struggled for this ideal. Today, it is said to have failed. But has a movement which is centuries-old suddenly become completely invalid because of Stalin's sins and therefore we must come up with a new public ownership system, a state ownership system which differs completely from Stalin's?

**Wan:** The truth of the matter is, China's present problem is how to transform the current state-controlled, primarily planned economy into a free market economy. This transformation is also the problem both the Soviet Union and Eastern Europe are facing today. But China has a decade of reform behind it, and the transformation should be a little easier. China can make the change in two steps: It should first encourage the development of a civilian-run economy, and after the civilian-run economy is fully developed, then it can buy up the state-owned portions—like small fish taking bites of the big fish. The Stone Company began as a township enterprise, and through contracting and other means, it took over the state-run enterprises. This process of peaceful takeover of the state-run economy by the civilian-run economy may be one way to transform China's economy.

The key to China's future economic problems lies in resolving the property rights issue. If property rights are not clearly delineated, China's economy will have no future. Of course we are not saying that the private ownership system will solve all of our problems. We must have "private ownership and fairness"—private ownership rights must be clearly delineated, but social fairness must also be guaranteed. We need "diversity and order"—we need diverse public opinions and diverse political organizations, but there must also be rules of the game and procedures to follow. We want "separation without chaos"—to solve the nationalities problems and the problems between central and local governments, we can decentralize power; we can set up a federal system, but we must separate power without bringing chaos, and society must continue its steady development.

### It Is Vital That the CPC's One-Party Autocracy Be Shaken

**Audience:** Today, 100 million people are running township enterprises in China. No matter what Li Peng does, people will give those enterprises their last ditch effort, and if one should fail, another would start up again. It is exactly this kind of lateral commerce and information that is most capable of changing China's top-to-bottom, three-dimensional political structure. Like wind, water, and air, they are indispensable. The Communist Party may be able to destroy all other organizations, but it cannot destroy the masses of township enterprises or

destroy Stone. These enterprises are playing their exemplary roles. Is that not politics too?

Wan: It is politics, but it is not enough. True, back when we started Stone, we were not just in pursuit of commercial success; we also wanted to explore ways to change the Chinese society. But if the current political system is not changed, if the property rights issue is not resolved, it will be difficult for an enterprise like Stone to develop further, and its exemplary role will be very limited. One very important point is, China cannot solve all of its problems by relying only on this kind of gradual change within the system. In other words, if and when the Communist Party feels that such gradual change is threatening its own existence, it will take action.

At that time, I felt that if property rights were not delineated, Stone's development would be greatly hampered. I tried many ways, but I always failed. For example, we talked to the Haidian District government saying that although when Stone was first started, the government did not invest a penny, but without its support, we would not have been able to get started. We offered them half of our stocks, thinking that, after giving them half, wouldn't that clearly leave the other half to us? It was purely a buying-out policy. But they rejected the offer, saying, "What do you mean half of the stocks are ours? Even your people are ours. Without the Communist Party's nurture, where would you be?" Later we tried to get help from foreigners. We thought that by internationalizing the equity shares, we could delineate Stone's property rights. We told the relevant departments that, "You do not actually sell off anything. All you sell are the enterprises' prestige and future in return for foreign capital. This is a deal where you don't have to put up any capital. Why not take it?" They said, you're right, but there is no such policy.

Thus, the kind of gradual change like Stone's development does have a positive effect, but it is not enough to rely on this kind of gradual change within the system. We need the pounding of forces from outside the system. There is no conflict between these two roles. Many people are still struggling in the adverse environment within the system, one stepping into the breach as another falls. This is one of the forces that will shake the Communist Party's one-party dictatorship. In the long-run, this is critical indeed. But we need many different channels to promote China's development.

China's problems are very complicated, and we need different roles: Stone plays an exemplary role; the privately-run enterprises play their exemplary roles; the provinces, Hong Kong, and Taiwan also have their exemplary roles, and of course, the opposition factions outside of the system will have their exemplary roles. As for the FDC's current position and role, we have chosen a very difficult road. This is an old road. Lu Xun once said, there is no such thing as a road; any frequently travelled way becomes a road. Without Stone, where will we find Stone's exemplary role? With the FDC, where will the opposition faction's exemplary effect come

from? Whatever we do, sometimes we succeed, sometimes fail. It is not always flowers and applauses. Say we want to build a road. We must have dirt and water. Not everybody will want to fetch the dirt and water. Different people have different roles and different ideas, which is perfectly understandable. But ultimately, somebody will have to fetch the dirt and water. When we first chose the name Stone, the idea came from casting stones to find the way. Perhaps we are the stones that pave the way; perhaps we are the milestones that mark the distance, but no matter which, stone is stone. As to whether we are the paving stones or the milestones, only history will tell. Today, we have started the FDC, and things are very difficult here overseas. Financially, we are in great hardship. If we can keep going despite the circumstances, even if we just serve as paving stones, the road will have a solid base. That is why I am here to call upon everybody to join us and support us.

#### There Must Be No Doubts About the Nature of the 1989 Democracy Movement

Audience: I have a suggestion for the FDC. The current situation is very unfavorable to the democracy movement. The movement will face a very difficult time. Therefore I suggest that today, before it runs out of intangible assets, the FDC should hurry up and negotiate with the Communist Party. For a political organization like the FDC which must be responsible to China, the important thing is to be able to influence the next step of change in China. What should the FDC do? I personally think that the FDC has made a mistake. It gave up the favorable negotiating position it once held. Today, to influence China, it is vital to have a legal status. I feel that only by dealing can one show strength; only by dealing can one seize the majority.

Internationally, we can talk about human rights, but in China, the slogan should be a free economy. So long as there is a free economy, no matter who is in charge, we can deal, we can negotiate, and we can compromise. In fact, your strength lies here. If the FDC wants to shift the focus of its work to the mainland, then it must strive to obtain a legal status. In addition, the easiest point to penetrate the mainland is through Hong Kong. The center of the overseas prodemocracy movement should be moved to Hong Kong. The Communist Party is not a monolithic bloc. Learning from the 1989 experience, it is not enough to combine the forces from without the system with the forces from within. Therefore, today, all of the FDC's efforts should be focused on helping the moderate forces within the Communist Party to gain the upper hand, and strategically, it should make the corresponding adjustment—everything is negotiable. So long as Beijing acknowledges that it is willing to talk, the FDC has won.

Wan: I agree with you in principle, but there is a procedural problem. We can negotiate with the Communist Party today. But they cannot handle it. They had their Asian Games, and the Seventh Plenary Session had

to deal with too many pressing problems, and meanwhile, their internal power struggle has rendered the situation too uncertain. The issue is not that we do not want to make contact or do not want to negotiate. The issue is the communists are avoiding us. Jiang Zemin said that the overseas people can go home, but they must, one, quit the reactionary organizations, and two, repent and admit their mistakes. This does not create an atmosphere for negotiations. If you call me a wanted criminal and force me to repent my errors, how can I negotiate with you?

Furthermore, what do we negotiate? The key lies in 4 June. It will be wrong to make the free economy the subject of negotiation. If we negotiate, the FDC has a bottomline, and the bottomline as stated in the white paper is that the CPC must acknowledge that the 1989 prodemocracy movement was not a rebellion but a grand patriotic democratic movement. Events before and after the 4 June massacre may be subject to a special investigation, but there must be no doubt about the nature of the 1989 prodemocracy movement.

(Wang Hao's editing of the taped recording for print has not been personally proofread by Wan Runnan.)

### Zhang Xianyang Indicted for Inciting Turmoil

91CM0326B Hong Kong CHAO LIU [TIDE]  
in Chinese No 48, 15 Feb 91 p 10

[Article by Chi Han-ching (0370 3352 3237): "Ideological Criminal Zhang Xianyang (1728 7359 2254) Reportedly To Be Brought to Trial"]

[Text] Crack elements in the 1989 democracy movement, Bao Zunxin [0545 6690 0207], Liu Xiaobo [0491 2556 3134], Liu Suli [0491 5685 6849], and Lu Jiamin [0712 0857 3046], have been formally indicted by the Chinese Communists, and a verdict is expected before the lunar new year. Next will come some noted intellectuals who are to be tried around the time of the lunar new year, including a former researcher at the Marxist-Leninist Institute of the Chinese Academy of Social Sciences in Beijing, Zhang Xianyang.

*On a recent visit to relatives in Beijing, I heard a friend who works in the Academy of Social Sciences say that the CPC regard Bao Tong [0545 1749], Bao Zunxin, Liu Xiaobo, Chen Ziming [7115 1311 2494], and Wang Juntao [3769 6511 3447] as "five big backstage manipulators who planned the riots," and they regard Zhang Xianyang as the person who manufactured the theory for the "turmoil." Thus, they will indict him for the crime of "inciting the turmoil."*

Zhang Xianyang's wife sought a lawyer to defend him, but the lawyer she visited urged her not to bother. In a political trial, defense is to no avail.

*Su Shaozhi and Zhang Xianyang collaborated in the publication during the winter of 1988 of "The Development of Marxism in China Since the Third Plenary*

*Session of the 11th Party Central Committee," which has since been classed a proscribed book that may not be distributed. It is "restricted reading" in university and government organization libraries that have copies of it.*

### Reform Ideas Not Countenanced by Hu Qiaomu Faction

This same friend also disclosed that although he took part in and expressed support for the students' peaceful demonstrations, Zhang Xianyang did not incite criticism of the Chinese Communist powerholders during the period of campus unrest, nor did he sign either the "May 16th Declaration" or the "May 17th Manifesto," much less did he "incite turmoil." He urged the students not to go too far. They should not "intensify contradictions."

After 4 June, he was incarcerated in Qinching Prison where he was publicly exposed and criticized, mainly because his reform views were not countenanced by Hu Qiaomu and Deng Liqun. These backbones of the hardline faction regained influence following 4 June and, with the support of Peng Zhen and Wang Zhen, they operated behind the scenes to make people suffer.

During the first "criticism of liberalization" in 1981, the Secretary of the CPC Central Committee Secretariat and concurrent Director of the Chinese Academy of Social Sciences, Hu Qiaomu, accused him of using criticism of "leftism" and of Mao Zedong as a pretext for propagating "bourgeois liberalization," and ordered "three prohibitions" to persecute him, namely, a prohibition against an upward evaluation of his position title, a prohibition against promoting him, and a prohibition against his leaving the country on visits.

Following the second "criticism of liberalization" in January 1987, in his position as a member of the Politburo in charge of ideology, Hu Qiaomu had the Chinese Academy of Social Sciences CPC Committee cancel Zhang's membership in the CPC on grounds of being a "bourgeois liberalization element." To buttress the reasons, Hu Qiaomu and Deng Liqun also accused him of being "one of the people who beat, smashed, and looted during the Cultural Revolution but had escaped the net."

### Thorough Criticism of Mao, Emphasizing a Crisis in Marxism

*My friend at the Academy of Social Sciences also revealed that the hardline faction intended to use a political trial as a means of discrediting Zhang Xianyang so that he would disappear from among those doing research on Marxism-Leninism. This was because he advocated a thorough criticism of Mao and a criticism of "traditional theories" to break through and transcend Marxism-Leninism.*

So-called "traditional theories" meant the rigid dogmas of Marx, Engels, Lenin, Stalin, and Mao, "theories" that impeded democratization and modernization.

Before 4 June, the emphasis of Zhang Xianyang's research was on how to "develop Marxism in a creative

way," i.e., adapting the "traditional theories" of Marxism to restructure the body of theory on the development of productivity and social democratization.

He, Su Shaozhi [5685 4801 2535], Wang Yizhou [3769 6654 5297], and Feng Lanrui [7458 5695 3843] called for a "new understanding of socialism," and demolishing the fetters of outmoded Marxist theories.

*He believed that Marxism is facing a crisis. Unless socialist society is reformed, it has no future. Dogmatism and absolutism sap Marxism of its vitality, and the "breaking" of Marxist theoretical system has created a crisis of confidence.*

"The Development of Marxism in China Since the Third Plenary Session of the 11th Party Central Committee," which he and Su Shaozhi authored, even more touched on a new understanding, adaptation, and demolishing of Marxism. In the autumn of 1988, Zhao Ziyang, who was still General Secretary of the CPC Central Committee, held a tolerant attitude toward the exploration of some theoretical issues; consequently, it was possible for the Beijing "People's Press" to publish this book.

#### **Prolonged Attacks From Hardline Faction at Marxism-Leninism Institute**

The 53 year-old Zhang Xianyang is from Taicang County in Jiangsu Province. He completed graduate

courses in the history of European philosophy at "Chinese People's University" in Beijing, earning the equivalent of a masters degree. Since 1978, he served as an associate researcher, a deputy researcher, and researcher in the Academy of Social Science's Marxism-Leninism Institute, as director of the Lenin-Stalin Office, and as associate editor (Su Shaozhi was the editor) of MAKESIZHUYI YANJIU [STUDIES IN MARXISM] magazine. He was a new era theoretician who Yu Guangyuan regarded rather highly. He was the first director of the Marxism-Leninism Institute (the second was Su Shaozhi, and the third was Zheng Bijian [6774 1801 1017]).

Zhang Xianyang took part in the 1978 "Two Slogans" polemic. At the 1979 Jingxi Guesthouse conference to discuss principles and ideological guidelines, he again severely criticized Mao Zedong's "Theory of Continuing Revolution Under the Dictatorship of the Proletariat," advocating abandonment of this slogan. This event rocked theoretical circles at the time.

People like Hu Qiaomu, Deng Liqun, Peng Zhen, and Wang Zhen opposed all-out criticism of Mao, and disapproved of the wholesale adaptation of Marxism. This resulted in continuous condemnation and attacks against Zhang Xianyang from this faction.

The Chinese Communist powerholders' charging Zhang Xianyang with the crime of "turmoil," is a method of political oppression that totalitarian societies frequently employ, and is not surprising.

## NATIONAL AFFAIRS, POLICY

## Consumption Strategy, Policy for 1990's

91CM0326A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 1, 11 Jan 91 pp 9-14

[Article prepared by the "1990's Consumption Strategy" Study Group, written by Chen Bingcai (7115 3521 2088)]

[Text] I. The Basis of Our Consumption Strategy for the 1990's

1. The food shortage problem is fairly serious. At one time, people thought that the per capita grain production rate would reach 400 kilos by the year 2000. By then, the 1.3 billion people would require 1.04 trillion jin of grain, 224.9 billion jin more than in 1989. This would require an increase in grain production of about 20.45 billion jin per year throughout the 1990's. But total grain production only increased 205.56 billion jin between 1978-1989, averaging around 18.68 billion jin a year over the 11 years, and for five years since 1984, grain production has stalled. Thus, it is unlikely that we will see significant increase in grain output in the next 10 years; a conservative estimate puts the increase at around 900 billion jin. Although we do not have to worry about people starving, the consumption of grain substitutes (such as meat, eggs, dairy products, and fish) will likely be a serious problem. The consumption of nonstaple foods, especially meat, is directly correlated with the production of grain. In the 10 years since reform began, we have seen a substantial increase in the consumption level both among the urban and the rural populations, especially the latter. In the next 10 years, assuming that not only will per capita grain production not increase but may even decrease slightly, it will be a chore just to maintain the current level of consumption, let alone raise it. As the scale and the amount of urbanization increase, the size and the proportion of urban population will increase significantly. Under these circumstances, increasing the urban population's consumption of nonstaple foods will put tremendous pressure on grain production, and it is unlikely that we will succeed. Thus, the government should be very cautious about setting any specific goals which it will have to live up to. Perhaps we should reconsider whether programs such as the "market basket" project should be continued as usual and how they should be implemented.

2. The demand for durable goods will remain stable or may see a slight increase in the next 10 years. Since 1979, consumption demand has been vigorous, especially in the market for durable consumer goods. Between 1979 and 1988, the demand for bicycles, cameras, electric fans, black and white TV sets, refrigerators, color TV's, and washing machines has increased anywhere between 3.85- and 26,000-fold. But we should realize that since 1984, only the demand for electric fans, cameras, refrigerators, and color TV's has sustained significant

increase; the demand for other consumer goods has slowed, and it is expected that the demand for refrigerators and color TV's will level off in the cities and towns in the next year or two, while the demand for washing machines and electric fans has already begun to stabilize. There will not be any significant increase in the demand for refrigerators in the rural areas, now or in the future, and the demand for color TV's and washing machines will not see substantial increase for another five to ten years. Thus, the demand for major durable consumer goods will remain fairly stable for the next 10 years.

3. The consumption pattern under the semi-supply system in the urban areas will create serious financial problems for the state. There is a close relationship between the urban population's living standard and the state's financial administration. China's cities and towns have always adopted a semi-supply system. Grain, non-staple foods, everyday necessities, housing, medical care, fuel and other consumer goods are very cheap. The state subsidizes and pays for the people's consumption either directly or indirectly. But because these subsidies were in accord with the low and even declining wages, it was never a serious burden or pressure as far as the state's financial administration was concerned. But since 1979, things have changed. Take consumer goods for example. As the state gradually decontrols the prices of some consumer goods which have been under the semi-supply system, it has been extending direct price subsidies to the consumers without cancelling the subsidies to the producers and managers for losses due to the price system. As a result, it is handing out subsidies at both ends. As for the consumer goods not yet decontrolled, in order to increase supply and ease the shortage and alleviate the pressure on the consumers as prices rise, the state has been assuming full financial responsibility. The above approaches are exerting tremendous financial pressure on the state. Subsidies add to the financial expenditure while the substantial increase in workers' wages, better known as workers' monetary income, leads to a reduction in enterprise profit, and the state also loses a big chunk of its revenue as a result. On the one hand, there is less revenue, and on the other hand, there is more expenditure—obviously this is more than what the Finance Ministry can afford. Not only that, but we have not seen any reduction in direct spending on the semi-supply system, especially on housing and medical care. In 1978, the state invested 3.92 billion yuan in housing and continued to increase its spending steadily until it reached 21.5 million in 1985, and despite the decline in recent years, it is still spending more than 18 billion yuan. The financial deficits and the massive issuance of treasury bonds, especially the over-issuance of currency in recent years, are the centralized reflection of the government's financial problems. This is not all, but as urbanization continues, this problem will continue and will even become worse. At the rate subsidies have been increasing over the last 10 years, by the year 2000, price disparity subsidy alone will top more than 100 billion yuan, which is probably more than the government can afford. But government-subsidized consumption is the

product of China's current consumption system, and it is almost impossible to reduce the subsidies.

4. We have an improper consumption pattern. In 1989, spending on foodstuffs in the urban and rural areas took up 54 percent of the total expenditure (54.4 percent in the urban areas and 54.1 percent in the rural areas), but the relative consumption in terms of the quantity of food was very different; it was much higher in the cities than in the villages. Meanwhile, spending on clothing took up 8.3 percent of the total expenditure in the rural areas and 4 percent more in the cities. The cities also spent 5 percent more on everyday necessities than the rural areas. But housing only took up 2.65 percent of the living expenses in the cities but as much as 14.4 percent in the rural areas. This marked structural difference is due not so much to the difference in income but to the existence of two separate consumption systems. The rural population's consumption is completely market-oriented. The villagers build their own homes, and all consumer goods, with the exception of what they themselves produce, must be purchased from the market. Urban consumption needs—from grain, eggs, and sugar to housing, fuel, utilities, and medical care—to a very large extent, are supplied at a low price by the state; the consumers pay very little for them, but the state's burden is heavy. It is because of this improper consumption structure that the people, since reform, put most of their increased income into the consumption of commodities, especially household durable goods. Another facet of the improper urban consumption structure becomes apparent if we look back at the old days. In 1957, the urban population's noncommodity expenditure came to 14.11 percent of their total spending; it rose to 14.63 percent in 1964. But today, it only accounts for 6.6 percent! The relatively small non-commodity expenditure is the manifestation of a distorted urban consumption pattern, and the root cause of this is the low-priced semi-supply system. And it is because of this system that commodity prices have been rising steadily.

5. The development in the production of consumer goods has been erratic, and the readjustment of the consumption mix has been difficult. Most people already know that there is a need to reform and readjust the urban population's consumption pattern, but it is a difficult task. Every round of readjustment and reform has required the state to come up with more money. That is why this round of structural readjustment has been put off again and again. Is it true that the consumers cannot afford the structural readjustment? This is not the question. The crux of the problem lies in the choice of consumer goods industries and the choice of policies. A decade of reform has greatly boosted the urban population's economic strength, but we have not made use of the increased monetary purchasing power to make structural readjustments. So far as the consumers are concerned, they are incapable of readjusting the improper structure by themselves. Consequently, the urban dwellers simply put their increased monetary income into consumer goods, and this is how modernized family

living come into being. By the same token, the consumers become incapable of withstanding any structural reform or taking the pressure of structural readjustment. They naturally try their best to resist any structure reform and readjustment. The difficulties we have had with the reform of the housing rental system is a good example. Without a wage increase, few would agree to rent reform. But over the last 10 years, haven't wages been increased substantially? Aren't those wage increases more than sufficient to make rent reform and structural readjustment possible?

6. The large debt payments make raising the standard of living very difficult. In the 1990's, we will face serious debt payment problems if we try to further raise the standard of our material life. Beginning in 1990, China must begin to pay off its domestic debts. Each year, principal and interest will cost in excess of 30 billion yuan, approximately 10 percent of the state's revenues. Although old debts can be paid off with new loans, how much more money we can raise is still a question. Moreover, chronic indebtedness and low production and construction efficiency will only make inflation worse. In the early 1990's, China will enter a peak foreign debt payment period. On the average, principal and interest will cost us \$8 billion a year. During this period, it will be difficult to borrow new loans to pay off old debts and have a net inflow of capital. Even if new loans can be obtained, it is unlikely that they can be used to pay off old debts, because the creditors will make sure that those loans are put into construction projects. Clearly, the foreign debt burden is even heavier than the domestic debt burden, and if there should be a net out-flow of capital, we will find ourselves in serious financial trouble. Under these circumstances, raising the living standard will be very difficult.

## II. The Consumption Strategy and the Principle Behind Our Policy for the 1990's

1. We should neither encourage consumption, stimulate consumption, nor censure consumption for being excessive and premature; instead, we should advocate moderate consumption and strengthen the government's guiding role. China has a huge population, and it will continue to increase at a rate of 15 million a year. Moreover, the rural population is constantly shifting to the cities. If we continue to encourage and stimulate consumption, it will only raise the people's expectations about improvements in their living conditions. Since China is rather inefficient, if we encourage and stimulate consumption, funds for economic constructions will diminish. The country cannot withstand that. Meanwhile, if their goals are not met, the consumers will be disappointed and will resent the government even more. In the early 1980's, we started out encouraging and stimulating consumption, but by 1985, this was replaced by a policy to control consumption. One of the main reasons was the state simply could not afford the high rate of consumption. Excess and premature consumption is not the consumers' fault; they usually behave properly. Reprimanding the consumers for their

behavior will not do us any good. It will only reflect the government's poor management. The government's duty is to guide consumption. Advocating hard work and plain living, encouraging the people to tighten their belts, and encouraging them to save are good guiding policies.

2. We should not make too many promises; instead, we must strive to improve and raise the living standard by increasing production. During economic reform, many socialist countries often try to hand out many benefits and tangible goods and make all kinds of promises to the citizens in hopes of getting public support. But after a while, people will realize that those benefits and tangible goods can no longer arouse their enthusiasm, and they become more and more dissatisfied with the ways things are allocated among individuals. In order to appease them, the government readjusts the allocation of benefits and goods. As a result, the more benefits and tangible goods it hands out, the more dissatisfied the people become. Meanwhile, economic reform is bogged down because of the reshuffling of vested interests while inflation grows worse and the deficit gets bigger.

3. We should consider China's own situation and revise the standard of being "comfortably off," and we should not encourage the people to increase their foodstuff consumption, especially meat consumption. Propaganda about being comfortably off should put less emphasis on nonstaple foods; instead, it should put more emphasis on improving and readjusting the consumption pattern. Being comfortably off should be interpreted as a life with modern characteristics, such as having various amenities, less physical work, more leisure time, good health, spacious living, and having all kinds of durable goods—these are the marks of "comfort." Here, being "comfortable" is synonymous with being "modern"; it is the essence that counts. Different countries face different conditions, and being modern means different things to different countries, and the same applies to comfort.

4. We must stabilize savings. If savings is unstable, it will have a serious impact on the economy. Even without a massive withdrawal of bank deposits, in the absence of proper guidance, a reduction in deposits and the payment of more than 50 billion in interest can shake up the national economy. What happened in 1988 is the best example.

5. We need to limit and guide the development of new consumer goods industries. The development of some new consumer goods industries, especially the luxury goods industries, can divert some of the monetary purchasing power to those goods. In time, if they become popular, they will become quasi-necessities or necessities. This will have an adverse effect on the readjustment of the people's consumption mix. We must limit the development of such consumer goods industries. If these goods must be developed, they should mainly be for foreign sales. Only in this way will the people's income be spent on structural reform.

6. We should reform and readjust the current system of subsidies and end the Financial Ministry's subsidy problems. Price subsidies for grain and non-staple foodstuff should be gradually phased out; prices should reflect the real value of the commodities. Price subsidies for everyday household goods (such as soap, matches, sugar) should also be eliminated as soon as possible, because they make little difference in the people's lives. We should make the urban and rural welfare programs uniform and systematic. Welfare programs such as housing, medical care and public health, and child care should be restructured so as to readjust the consumption pattern. Restructuring of the welfare system does not mean that the state should stop investing in those programs; it means it should emphasize efficiency. It should still invest in programs that need state funding, but there must be some pay-back, and there must be an appropriate and fixed source of funds. Welfare programs should be socialized and fair, not monopolized. We should not formulate different welfare programs by law or policy for different kinds of enterprises and units.

### III. The Objectives of the Consumption Strategy for the 1990's

1. The goal of raising the people's consumption scope and level: to meet the goal of quadrupling the output value by the year 2000, we will only have to maintain an economic growth rate of 5.4 percent a year, although it is likely that we will exceed this rate and achieve a growth rate of 7.2 percent instead. According to the principle that consumption tends to keep pace with economic growth, and considering the population increase and the adjustment of the accumulation to consumption ratio, the nation's total consumption will increase at an average rate of 6 percent a year. The 1988 civilian consumption expenditure was 699.5 billion yuan, and at constant 1988 prices, by the end of this century, consumption expenditure will top 1.40753 trillion yuan, approximately 59 percent of that year's national income being spent, which will be higher than the 57 percent level of 1988, and if we add the consumption by non-individual consumers, real consumption may top 68-69 percent. For a population of 1.3 billion people, per capita consumption will come to about 1,083 yuan, and compared to 643 yuan in 1988, this represents a real rate of increase of 4.44 percent a year. If the price index rises 10 percent a year, the top rate of increase in nominal consumption may reach 14.88 percent a year, and the nominal consumption level may reach 3,400 yuan.

After lowering the accumulation rate in 1979, accumulations had varied between 28 and 31.5 percent a year during the 1980-1984 period, which was fairly reasonable. But since 1985 there has been a marked increase in demand, especially in investment demand. The accumulation rate was as high as 35 percent in 1985, and the four years that followed, it remained above 34 percent. These five years marked the period of the highest rate of investment. Excess investment caused the economy to overheat and profit to plummet. In order to maintain a normal rate of economic growth and shift the focus of

our economic work to increasing efficiency, it is necessary to reduce accumulation and increase consumption and use consumption to give impetus to economic growth. Some people may ask, wouldn't increased consumption lead to excess consumption? We do not believe so. We have not seen any excess consumption in recent years. Any excess increase in income will be offset by an even higher rate of increase in savings, and therefore consumption will not be beyond the people's means and will not lead to excess consumption, and there is no need for concern.

We suggest that during the Eighth Five-Year Plan period and throughout the 1990's, the accumulation rate should be kept at around 30 percent, that is, lower the current rate of 34 percent by 4 percentage points. Specifically, funds generated by 2 of the 4 percent cutback should be used on repaying foreign debts and the other 2 percent on improving the living standard and increasing consumption. Upon lowering the accumulation rate, we should improve the result of accumulation and increase investment efficiency, letting higher efficiency offset the effects of the lower accumulation rate on economic growth. This will help shift our economic work onto the track of improving economic efficiency. Of course, the accumulation rate should be adjusted gradually.

2. The goal of increasing the people's income: by the year 2000, the per capita monetary income of the urban population will be around 3,960 yuan, 185.3 percent higher than 1989's. Overall, this increase will be slightly larger than the 177.56 percent increase over the 1981-1989 period, but at a rate of increase of 10 percent a year, it is slower than the 13.6 percent average rate of increase during the 1981-1989 period. Meanwhile, the per capita real wage will be increasing at a rate of 1 percent a year (at 1989 prices). The rural population's per capita real income is expected to reach around 1,900-2,000 yuan, increasing at an average rate of 11-12 percent a year, and the increase in real income will be 2.5 percent per year, which is slower than in the previous 11 years. Limiting the increase in real income to within the 1-2.5 percent range is not too low. Between 1979 and 1984, due to the readjustment of the allocation policy and the state's compensation for past "everyday debts," personal real income increased fairly rapidly during this period. But since 1985, because of stricter macro control and management over the workers' income, real income has seen only moderate increases. The workers' real income rose 4.82 percent per year during the 1979-1985 period but slowed to 0.82 percent between 1986 and 1989. Overall, in the 11 years of reform, readjustments were made too much, too soon in the first seven years. The people now have too much surplus, and they have too much nonwage income, such as interest and dividends—it is estimated that these are increasing at an average rate of 50-60 billion yuan a year nationwide. That is why we should consider slowing the rate of increase in workers' wages and limiting it to around 1 percent. As for the rural population's income, because the constraints are more rigid in the rural areas than in the urban areas, and

considering the readjustment of agricultural product prices and the development of nonagricultural products, their real income will rise slightly faster than the urban workers' real wages.

3. The goal of increasing the consumption of material goods: grain consumption should be kept at the 1988 level of 250 kilos per person. This is less than 1986's 256 kilos but 8 kilos more than the 1989 figure. Meat (including pork, beef, mutton, and poultry) consumption should also be kept at the 1988 level, which was 18.5 kilos. Looking at the urban and rural consumption patterns, if the rate of urbanization should increase, meat consumption may decrease slightly in the urban areas and increase slightly in the rural areas, and if the consumption pattern is readjusted in the urban areas, we may see a sharper reduction. The consumption of eggs, aquatic products, and edible oil can be kept at the 1988 level. We can increase the production of the first two items by improving efficiency and by means of artificial propagation and cultivation methods. However, oil production is hampered by the reduction in cultivated land and grain growing area, and output may decline. We estimate that the per capita consumption may be only 5 kilo, 1 kilo less than in 1988 and 0.4 kilo less than in 1989.

Televisions, refrigerators, and washing machines and other consumer goods that characterize modern living are found in approximately 85 percent or more of the homes in the cities and towns. Everyday durable consumer goods, such as household appliances, are basically universal. In the rural areas, besides refrigerators, washing machines, and color TV's, ordinary durable consumer goods have generally reached a popularity level comparable to that reached in the cities in the mid-1980's.

Generally speaking, every citizen now has a home. In the urban areas, the per capita living area is around 12 sq m. A nuclear family (a couple with one child) basically has a two-room flat (30 sq m.) and the homes are equipped with most modern amenities. Basically, there are no homeless (referring only to town and township households). The per capita living area in the rural areas is about 20-25 sq m. If the housing system is reformed, the living conditions will be improved even more.

In addition, as we set the goals for the year 2000, we must make sure that the 20 million people living in poverty today are adequately fed and clothed, so that their basic physiological and everyday needs are satisfied. While we all strive to become comfortably well off, some people, of course, will be living at or below the poverty line (this is not the same as being impoverished; the former is relative to the economic development and the living standard and the latter is an absolute level), but it is essential that we help everybody escape poverty and make sure they are adequately fed and clothed.

#### IV. Means to Achieve the 1990's Consumption Strategy

1. We need to stabilize while increasing grain production and make the conversion of meat and nonstaple foods more efficient. Although it may be fairly difficult to achieve the goal of guaranteeing 400 kilos of grain per person, it is equally difficult to increase the supply of nonstaple foods. But we cannot stop trying.

2. We must vigorously develop the construction industry. The construction, or the housing, industry is one of the main driving force behind economic development. The housing industry has seen rapid development in China's cities and towns in the last 10 years, but the development of urban housing has also brought tremendous financial problems to the state. In the next 10 years, we still need to vigorously develop the housing industry, but it will be difficult for the government to finance the development like it did in the last 10 years. China should tap other fund sources to finance housing construction. Overall, it should let individuals finance housing construction, and if the state invests anything, it should at least recover the capital. The development of the housing industry should be under unified planning and guidance. It is far from adequate to rely only on real estate companies. We can develop various kinds of housing development organizations, including banks, investment associations, and consumer groups to make investments. We need multiple channels to develop housing in the quickest and the most economic way in order to solve the housing problem.

3. We should generally limit the development of new consumer goods industries, such as those that produce small cars, air conditioners, and electrical appliances, by implementing a high-tax, high-price, and low-profit policy. Some new consumer goods may be encouraged to develop overseas markets in order to earn foreign exchange. In this respect, we should formulate specific and detailed industrial and product policies, such as setting the percentage of domestic sales; in addition, violation should prompt a limit on loans, an increase in interest rate, or a cease and desist order. Also, the government can organize enterprises and finance enterprises to develop international markets for their products. In this respect, we can learn from South Korea. South Korean-made color TV's and small cars are not available in the domestic market; they are all sold overseas. The result is, although South Korea had a later start than China, it is faring better, and today, these two products are very competitive in the international markets. Some of China's new consumer goods industries should develop in this direction.

4. We need workers' income and wage policies. In order to guarantee smooth readjustment of the consumption structure, we must standardize and unify the current workers' wage and income policies. Currently, there are no rules regarding the increases in workers' wages or the wage level; the same work hours and the same amount of work may fetch different wages. Nonwage income is very confusing; there are many complicated sources and

channels, some legal, some not; some reasonable, some not. As a result, there are great income disparities. This obviously makes the readjustment of the consumption pattern very difficult. To standardize and unify the current wage and income policies and normalize and institutionalize everybody's wage increase, we cannot play "catch-up" with the wage system; we must make all of the workers' income above-board, legal, and reasonable. Only in this way can we correctly ascertain how much structural readjustment the people can bear.

5. The savings policy: China's economic development mandates that we encourage savings; moreover, the readjustment of the urban population's consumption pattern also requires that we encourage savings. To facilitate a smooth structural readjustment, we should set up special savings accounts, such as saving for home-buying, as Singapore did, to force people to save money to purchase their own homes, mobilize the forces of the citizens, and accelerate housing construction. To encourage savings, we cannot simply raise the bank deposit rates; instead, we should set up a savings network to make saving money more convenient. In the future, when we readjust the interest rate on deposits, we cannot just worry about inflation; instead, we should consider the profit to capital ratio and the profit to investment ratio. The interest rate on savings should be 1-2 percentage points below the profit rate. In this way, we can control inflation without hurting savings.

6. We should readjust and reform the current subsidy and welfare systems in the urban areas. We should abolish the grain and oil price subsidies. The key here lies in how much readjustment the consumers can take. Based on a family livelihood survey in the urban areas conducted in 1988, decontrolling grain and oil prices and eliminating the subsidies would increase the per capita expenditure by 85.87 yuan a year, or 312 yuan per household per year. If the urban workers are given 10 yuan per person per month in the form of an explicit subsidy or a wage increase, based on the figure of 2.03 workers per household as established in the 1988 census, each household will receive 243.4 yuan a year. In this way, each household's burden will only come to around 70 yuan a year, which is entirely within their means. Based on the 1988 census of 136.08 million workers in the urban areas, this scheme will cost the state 16.3296 billion yuan. This is 1.43 billion yuan less than the grain and oil price parity subsidy (17.76 billion yuan) and about 9 billion yuan less than the total grain and oil loss subsidies incurred (25.3 billion yuan). The government can spend the money it saved to pay the new urban workers and to readjust the supply and demand of grain and oil.

We should implement a housing system that makes the consumers finance their own homes. It is our opinion that reform of the housing system should apply to everybody, not just some people. Everybody should be able to "purchase their own home"; however, the purchase methods may vary. Today, the most urgent task is to raise rents. We should take small steps, but we should

not stand still—this is the only way to deal with rents that are too low. Only after rents have reached a certain level can we commercialize and privatize housing.

We should gradually reform the system of subsidies for fuel, water, electricity, heat, transportation, and communications. Any reform that may cost the consumers substantially should be staggered with the reform of the grain and oil price subsidy system and housing reform and should not be launched at the same time. The purpose of changing the noncommodity consumption pattern is to reduce and to avoid unreasonable consumption and wastefulness. We should not simply raise the price to make a profit. Meanwhile, we should strengthen the management and administration and increase the efficiency of enterprises that produce those goods.

In reforming the medicare system, we should work toward a system in which individuals pay for their medical insurance, that is, we need to have medical insurance companies. Individuals will pay premium to the insurance companies which in turn will determine the amount they will cover for specific illnesses. For ordinary illnesses and small costs, the individuals will be held responsible. Large medical bills will be paid by the insurance companies (or individuals and companies paying a fixed percentage).

7. We need a pricing policy that promotes reasonable consumption: (a) The price of foodstuff will be relatively high mainly because of the population increase and the increase in purchasing power. In addition, the resources needed to produce foodstuff are relatively scarce, and government subsidies are slowly being phased out, and so prices not only will not fall but will rise some more. (b) The price of manufactured consumer goods, especially durable consumer goods, will be relatively low because of the shift in the people's cash purchasing power, and so the price of expensive industrial products will level off. It may appear that the policy to limit and guide the development of consumer goods industries will raise the price of consumer goods, but since these products are universally used and there is no longer a vigorous demand for them—in fact supply now exceeds demand, prices will have to come down. This will facilitate competition among enterprises, which will lower cost and put some of the enterprises that are less qualified, that produce substandard products, and that do not have economies of scale out of business. (c) The price of labor and services will vary because they are different in nature. The price of some service trades that are luxury-oriented, such as cosmetology, plastic surgery, amusement parks, and restaurants, will be higher, but the price of ordinary services, such as repair, tourism, and commerce, will not be that high. Education is an exception—its price may appear fairly high because the consumers have to pay more out of their own pockets.

8. We must guarantee that everybody's basic everyday needs are met. For this reason, we should set a minimal wage standard, and at the same time, we should determine the poverty line. These two standards should be

adjusted as time goes by and as prices increase. The People's Congress (the Standing Committee) should discuss them every year to determine if the standards should be revised. If it is difficult to set a national standard at this time, we can let the provinces, municipalities, and autonomous regions set their own standards first.

9. We should make improving the quality of life a major policy as we strive to be comfortably off. Mainly, we should improve the quality of consumer goods and provide better after-sale services. This would require legislation (such as food sanitation law, product quality law, and product inspection law). At the same time, laws must be enforced and supervised. We should increase and improve cultural consumption. Spiritual and cultural consumption is an important part of comfort. In this respect, we should continue to make culture and education universal and gradually eliminate illiteracy. We should develop a healthy cultural life, amusement organizations, and cultural activities so as to raise the entire population's scientific, cultural, athletic, and artistic standards. We need to improve everyday services and facilities, further develop medical care and public health, and immunize the healthy and cure the sick, so that the people are healthier and can live longer.

#### Make Greater Use of Market Forces To Set Prices

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[Article by Zeng Guoxiang (2582 0948 4382), Economics Department, Jiangsu University: "Thoughts About Nurturing Markets, and the Deepening of Price and Commodity Flow System Reform"]

[Excerpts] After nearly two years of improving the economic environment and rectifying the economic order, total social supply and demand are in rough balance. Now that this has occurred, people are talking a lot about price reform, and they suppose that now is a good time for price reform. They feel that so long as the aggregate is controlled, even if the pace of price reform is somewhat great, there is nothing to fear, and the risks will also not be large. These views make a certain amount of sense. Nevertheless, when discussing price reform, there are several questions whose implications must be clarified. This is because there is no unanimous perception of price reform among different people.

#### 1. Price Reform Implications, Goals, and Position; and What Should Be the Near Term Emphasis of Price Reform

[Passage omitted] The main reasons for the disorderliness of some markets for a time during the past two years was, first, the bad balance between total supply and demand. Total social demand was greater than total social supply, thereby causing an overly rapid rise in the overall price level. In anticipation of a rise in prices, city

residents scrambled to withdraw their savings to buy commodities in order to reduce losses resulting from currency devaluation. A second reason was the failure of some traders to conform to standards. Some of the principal traders dealing in commodities never completed industrial and commercial registration procedures. Though others completed these procedures, the person registered and the person doing business were not one and the same. Other particulars of the registration such as location, capital, and personnel did not correspond with the facts. What is more, large numbers of companies in which there was no separation of government administration and enterprise management engaged in business activity. They possessed both commodity goods distribution authority of a political nature, and also engaged in business activity aimed at making profit. Third, market regulations were not sound; and market control, including taxation, and industrial and commercial administration and management was not sufficiently strong. It tended to be weak.

On the basis of historical experience and proceeding from current realities, the orientation and goals of Eight Five-Year Plan price reform is to use good performance in bringing about overall balance. In particular is the need to continue with a fairly tight money policy that is in keeping with steady economic growth as a foundation for pushing ahead with reforms in which market orientation is paramount for gradual promotion of a change in the price formation mechanism. In addition is the fostering of markets, improving the quality of markets, making market regulations sound, and better market control and supervision. Price reform must be coordinated with reform of the commodity flow system, the planned investment system, and the financial subsidy system.

To recapitulate, the emphasis of price reform must be on fostering markets and on changing the price formation mechanism. Most commodity prices must be shaped by the market, and relative commodity prices must also be shaped by the market. Government emphasis should be on the use of overall control to maintain the overall price level relatively stable, while simultaneously using various policy measures to maintain a fine and healthy market environment.

## 2. How to Understand Two-Track Prices, and How to Move Ahead With Price Reform and the Fostering of Markets Under the Two-Track System

As stated above, the shaping of the price system correlates directly to the planning system and the materials system. In order to broaden the autonomy of production enterprises, reforms of the past several years reduced state command style plan allocations and distribution percentages of some products such as coal, steel, lumber, cement, and grain, while increasing the percentage that enterprises could sell themselves. This resulted in some of the same kinds of products being sold at the plan price, and some of them being sold at a negotiated price (market price). This both assured the state a portion of

goods through command plans to support key construction projects and the needs of keep production enterprises, and also accommodated an expansion of production enterprises' market authority. This was an important transitional system.

People can enumerate numerous shortcomings of the two-track price system. Examples are: the large price differences resulting from the two-track system make raw and processed materials production enterprises want to cut back on shipments of products under command style plan allocation out of a desire to increase the percentage of products they could sell themselves. Furthermore, the greater the shortage of a product, the greater the desire to hold on to much and deliver little. This gives rise to problems in at least two regards. One is a shaking of the seriousness of command style plans, and the other is that enterprises in the same industry and in the same trade do not have an equal opportunity to make a profit because of differences in the percentages of goods in extremely short supply that they ship. Processing enterprises want to receive distribution of more low-price command style products. For them, greater distribution of command style plan quotas actually means gaining more price spread. Therefore, even though an enterprise may not need a product, or may not immediately it, the enterprise will strive to receive a greater distribution of the quota. This places the government in an extremely difficult predicament. Its command-style goods plan cannot bring about a balance between supply and demand. Not only is an overall balance difficult to attain, but serious structural distortions appear—great demand for products for which there is a severe market shortage and little supply; and little demand for products for which there is no market demand and large supply. This results in a false strain on the relationship between supply and demand, wasted resources, and delays the turnover of goods. Conversely, an increase in the number of middlemen in the commodity flow realm, increased costs, and the increase in prices at every link in the chain worsens enterprises' efficiency and costs. In addition, the great difference in "two track" prices provides middlemen opportunities and loopholes they can use to "convert parity prices to negotiated prices," "convert negotiated prices to parity prices," "move goods within plan outside plan," and "move goods outside plan within plan" in a resort to corrupt practices and unhealthy tendencies, misusing their authority for private gain.

In the world there are two sides to everything. Can we suppose that in China where reform and opening to the outside world has been underway for only four or five years, where markets have not been soundly developed, where there is lack of general agreement on numerous important issues, and where there is a lack of experience with the market mechanism, that it is possible to institute a single track price system, remove all restrictions on all of the means of consumption and the means of production, introducing market regulation? Apparently this is not possible. This is not to say that it is not

possible in theory, but it is to say that it is not workable in practice. This is because a change in the price formation mechanism requires a process. It does not depend on the degree to which markets are developed, but rather on the balance between total social demand and supply, what enterprises are able to bear, what the populace is able to bear, and completeness of reform of the control system with which the removal of market restrictions is interrelated, etc. In short, certain conditions and environment are needed to change from two tracks to a single track. The shift cannot be made on the basis of human will. Unless objective circumstances are right, not only are there very great risks in the forced complete removal of restrictions on markets and removal of price limits, but this may block future price reforms and reforms of the commodity flow organization, operation of the economy, and the entire economic system.

The problem requiring discussion now is how to continue to move ahead from the transitional two track price system in order to continue to propel reform of prices for the shaping of a mechanism that can gradually straighten out the main relative price relationships, i.e., comparative price relationships, and commensurately reform the price control system.

The transition from a double track to a single track system requires, for the most part, going through three completely dovetailed logical sequences as follows: The first is to straighten out the two track price and two track commodity flow channels, putting plan prices and commodities on the plan track, and putting market prices and market commodities on the market track. Second is to merge to the plan track anything on the plan track that can be merged, and to merge to the market track anything on the market track that can be merged under the two track system. Third is to reduce the kinds, amounts and percentages of goods on the plan track while widening the percentage under market regulation to promote a change to a price forming mechanism. In actual operation, a succession of specific policy actions will have to be taken on the basis of differences in the supply and demand situation, and the extent to which each area has organized the task and is able to bear it. There can be no forced sequencing and unanimity of action, nor can "moving in lock step" and "arbitrary uniformity" be practiced.

The main reason for the tumult in market order during the previous stage was loss of control over the aggregate and the currency inflation it engendered. A two-track price system has inherent shortcomings. Objectively, it offers opportunities for the resale at a higher price of goods bought at a lower price, and the seeking of exorbitant profits. However, some problems are not the result of shortcomings inherent in the two track price system; instead, they grow out of commodity flow and practices in the commodity flow chain. Most conspicuous is the problem of "transferring of goods within plan outside of plan" for supply and sale. Grain dealings are used here as an example.

In recent years, the government's subsidy burden has become increasingly heavy, subsidization of grain and edible oil procurement and sales accounting for most of it. Government expenditures on grain and edible oil subsidies amounts to more than 30 billion yuan annually. This includes some subsidies that are not necessary under the two track price system. Thus, some subsidies are not needed, and quite a few are a waste or become dissipated along the way. The main reason for the overly large expenditure on subsidies lies in the business links in the commodity flow chain. First is the mixing together of grain purchased at the parity price and at negotiated prices for sale. The mix up caused by this sale at negotiated prices of grain bought at parity prices, and the sale at parity prices of grain purchased at negotiated prices increases subsidy expenditures. Second, the more grain sold at the parity price, the greater the losses of enterprises dealing in grain. Consequently there is no interest in selling parity price grain. This shows defects in the business system and the control system. What actions should be taken now through reform of the grain business system and the grain subsidy system, and through the inventorying and straightening out of the plan track and the market track as a means of reducing grain and edible oil subsidies to reduce government expenditures and reduce pressures on government to effect balance is an extremely pressing practical problem.

The rather serious inversion of grain procurement and sale prices, and the diversity of sale prices and procurement prices of parity price grain used for different purposes, as well as the different channels through which parity price grain is sold lend themselves to profiteering from the interchange of grain within plan and outside of plan, and getting undeserved subsidies as a result of the differences in prices. This results in a certain amount of chaos in parity price grain procurement and marketing control. Virtually all of the grassroots level stations in the grain system deal in parity price grain and oil on which they lose money because of policies. Whether they run their businesses well or not, ultimately their losses are corrected through the government's pocket. In view of this situation, the parity price grain and edible oil administration and control system must begin by separating and assigning channels and systems for dealing in parity price grain and edible oil from market grain and edible oil. Parity price grain and edible oil dealings should be conducted on the plan track (including prices, the grain itself, and flow), and market price grain and edible oil dealings should be on the market track (likewise including prices, the grain itself, and flow). The parity price grain and edible oil control mechanism should be functionally separate from enterprises dealing in parity price grain and edible oil, the administrative agency being responsible only for the allocation of parity price grain and edible oil and the issuance of subsidies. It should have nothing to do with dealings in grain and edible oil (including both parity price and market price grain and edible oil dealings). An agent system for dealings in parity price grain and edible oil should be

instituted for parity price grain and edible oil administrative agency dealings with grassroots stations, granaries, and shops in the grain system. At the same time, restrictions should be removed on grassroots station, granary, and shop dealings, "independent accounting, business autonomy, and responsibility for their own profits and losses" instituted. Subsidies to grassroots level stations, granaries and shops that are agents in parity price grain and edible oil dealings would be set by parity price grain and edible oil administrative agencies on the basis of agent system amounts, the more stored and shipped the greater the subsidy, the less stored and shipped the smaller the subsidy, and no subsidy when nothing is stored or shipped. In this way, parity price and market price grain and edible oil in the two track system would each travel on separate tracks. Subsidies for dealings in parity price grain and edible oil would be changed from hidden to open subsidies, thereby greatly reducing government subsidies. The functional separation of parity price grain and edible oil administrative agencies from grassroots business enterprises would both invigorate the business of grassroots enterprises, and enhance parity price grain and edible oil control, thereby preventing the unhealthy tendencies and violations of the law resulting from transferring of parity price grain to negotiated price grain, and transferring of negotiated price grain to parity price grain. It would arouse the interest in parity price grain sales of grassroots businesses, make grassroots businesses better informed about economic accounting, advance the diversification of grassroots businesses, and improve the economic returns of grassroots businesses.

The shortcomings of the two-track grain price system cannot be suddenly solved throughout the country within a short period of time, nor can government subsidies be suddenly completely eliminated. Each province and municipality must be permitted to follow a new course as actual circumstances require, separately exploring diverse ways of stabilizing procurement, reducing sales, cutting subsidies, and reforming the grain procurement and marketing system in the invigoration of grassroots businesses and improving returns from grain dealings. Within a suitable period of time, the grain procurement and sale price inversion problem can be gradually solved. Before procurement and sale prices are adjusted, the parity price grain and edible oil business administration system can be reformed, first straightening out internal economic relationships within the grain and edible oil procurement, marketing, and processing systems in order to administer and control parity price and negotiated price grain and edible oil separately. This is a road that carries little risk, costs little, and produces large results. This same road should be followed as the first step in allocating and dealing in other main materials such as parity price processed steel, lumber, and nonferrous metals. This entails making several separations, namely the separation of plan prices and market prices, separation of plan-allocated goods from goods that enterprises purchase and sell themselves, and the separation of businesses dealing in goods

they have purchased themselves or sell themselves from administrative agencies that organize plan procurement, marketing, allocation, transportation, and storage.

At a time of slack enterprise sales and a market slump, in view of the poor health of certain market procedures, measures to expand command-style plan product varieties and amounts cannot be taken, nor can the authority of enterprises to sell their own products be rescinded or various kinds of "franchising" be adopted. By "franchising" is meant "monopoly dealings" by state-owned businesses and materials enterprises. These "monopoly dealings" contain numerous shortcomings. They hurt the rapid circulation of commodities; they hurt enterprises' production, and they hurt the returns of businesses engaged in commodity flow. Full use must now be made of the fairly good opportunity that balance between total social demand and supply provides to remove restrictions on commodity and material prices and markets for which supply and demand is generally balanced for a gradual reduction of subsidies. For means of production that production enterprises consume in large amounts, the existing supply and demand relationship and channels should be retained; however, only "retain quantity not price." Prices of these commodities and materials should be put on the market track. At the same time, the plan price of those products that cannot be merged on a track should be suitably raised for a gradual narrowing of double track price differentials to promote the fostering of markets and the development of production.

### 3. How To Foster Consumption Goods Markets and Means of Production Markets

Thanks to the years of reform, the country's consumer goods markets are thriving and its means of production markets are developing. Nevertheless, they are still in an inchoate stage, which shows up in the not very large scale or capacity of market activity, the still not very strong market competitiveness, and the still not very sound market regulations.

A review of the process of market development during the past more than 10 years and its present state shows the markets in which development has been relatively good to be: fruit, aquatic products, vegetables, clothing, shoes, shoes, and hats. Price restrictions have been removed on most of these products, firms organizing their production, operation, and sales on the basis of market demand. Many business channels exist; business methods are flexible; and the country, collectives, and individuals benefit in common. There are numerous varieties and specifications for commodities, and the cycle for updating for industrial consumer goods has accelerated. Production is according to demand; there are few middlemen; and most production and demand relationships are sealed through economic contracts. Markets for these commodities are both thriving and steady, expressing rather well a situation of "removal of restrictions on business, enlivening commodity flow, vitality without chaos, and control without stifling."

The market slump that occurred for a period of time following improvement of the economic environment and rectification of the economic order was largely a structural slump in which problems of insufficient structural demand and problems of insufficient structural supply existed. Relatively speaking, during the domestic market slump, there was no slump in international markets (the portion of foreign sales and exports). There was also no slump in readily marketable commodities, but there was a slump in tired, trite, and stereotyped merchandise.

The present offers a fine opportunity to remove restrictions on markets and to foster markets. After two full years of improving the economic environment and rectifying the economic order, the overall scale of capital construction has been brought under control, inflation has declined, the overall price index for 1990 was a general 6 percent, savings have steadily risen, social purchasing power and social commodity supply are in rough balance, foreign exchange receipts and expenditures are generally balanced, and the import-export trade is growing steadily. These are all favorable conditions for the removal of restrictions on markets and the fostering of markets. In addition, problems existing in the operation of the economy itself, such as the imbalance between government receipts and expenditures and credit receipts and expenditures, and readjustment of the product structure, the enterprise organizational structure, and the product structure also objectively require the gradual removal of restrictions on markets and the fostering of markets to promote the flow of production elements. These means may be used to reduce pressures for government subsidies and for steady increases in loan payments.

Readjustment of the product structure must be propelled by market demand rather than by supply. Readjustment of the enterprise organizational structure must be propelled by market competition and not by plan. Naturally, the government should and can use industrial policy direction as well as fiscal, tax, and credit policies to guide (encourage, suppress, and limit), and to advance readjustment of the product mix, the enterprise organizational structure, and the industrial structure.

So long as a situation exists in which total social supply and total social demand are in general overall balance, and structural readjustments are urgently needed, if we give up this fine opportunity, and if we do not boldly pursue a policy of removing restrictions on markets, but rather follow a different course, using the expansion of capital construction demand to stimulate production and rally markets, using the retraction of enterprise and local government autonomy, centralizing financial and material resources once again, enlarging the profits, tax revenues, and materials passed to higher authority through command plans, and directly employing administrative methods for the distribution of investment, credit, and materials, in the end not only will this be unable to solve the problems of government financial imbalance and credit imbalance, but it may very possibly

arouse once again an inflation of investment in fixed enterprises, and a rise in overall price levels. When enterprises lack initiative for production and management, even though infusions of loans and capital may bring about an increase in the amounts of products produced, these products may accumulate in inventory or may have to be sold at a sacrifice because they cannot find ready markets. This results in only a low level of duplication and reproduction. There can be no great increase in the quality of the economy's operation, meaning that macroeconomic control may once again sink into the predicament of "chaos ensuing once restrictions are removed, and death ensuing once controls are instituted."

Markets are the sum total of exchange relationships. The key in the removal of restrictions on markets and the fostering of markets lies in the development of commodity production and commodity exchange, reducing to the absolute minimum command-style production distribution and allocation. Even if the government retains some command-style plan allocation and distribution of certain means of production, it too has to obey the laws of value. Simply stated, the plan price of the means of production that the government has to distribute, must be close to the market price for goods of the same kind and quality. If there is too great a difference between plan and market price, the enterprise shipping the goods will be hard put to accept that price because the shipment of goods at a low price means, in essence, that the government has resorted to yet another means of collecting revenues from enterprises. The supply of goods at low prices means, in essence, that the government is resorting to various hidden means of providing enterprises financial subsidies. A confluence of the price forming mechanism with the taxation mechanism and the subsidy system both distorts the commodity price system and weakens the solemnity of command-style plans, but also blurs the line between and the functions of taxation and subsidies. It artificially widens the conflict between supply and demand for command-style products.

Both the consumption demand structure and the investment demand structure are complex and ever changing. The market demand structure cannot be arranged one piece at a time by government plan. Step-by-step fostering and development of consumer goods markets and means of production markets requires reform of the business, materials supply, and foreign trade systems, changing the product distribution and allocation system to a commodity exchange system. The main players in market commodity exchange are legally registered firms rather than the government or public institutions. Reform of the commercial, material supply and foreign trade systems requires reform of the plan and investment systems and methods since the distribution of materials, credit, and foreign exchange follows plan and investment.

Some consumer goods markets and most means of production markets are not very well developed, partly

because of the level of social productivity, but mostly because of the administrative system and administrative methods. Fostering of consumer goods markets and means of production markets requires study for solution to this problem.

First, good performance in balancing total social demand and total social supply particularly requires control of the total scale of investment and the total scale of credit for continued enforcement of a stable currency policy rather than a policy of expanding currency. This should form the basis for continued removal of restrictions on commodity prices, and for continued removal of restrictions on markets to expand the proportion of market regulation. This means adoption of a "tight money, loose prices" strategy.

Second, for markets on which restrictions have already been lifted, including consumer goods markets, means of production markets, capital markets, bond markets, labor markets, and skills markets, straightening out and restructuring must be carried out to improve market quality and standardize market order.

Third, there are two difficulties in reform of the commercial, material supply, and foreign trade flow systems, namely the lack of separation between government administration and enterprise management, and no distinctions between things covered and not covered by plan. Deepening of the commodity flow system and reform of the administrative system must be used in the continued straightening out and restructuring of corporations. Administrative companies must not be allowed to function both in government distribution and allocation of materials and as businesses with the goal of making a profit. A small number of retained administrative corporations act as agents in carrying out some government functions, i.e., they act as agents in the plan distribution and allocation of command-style commodities and materials, and in commissioning businesses. Such administrative corporations receive pay as public agencies. They do not work for profit; they do not engage in business activities; they have a minimum number of personnel; they have various kinds of grassroots commercial, materials supply, grain, and foreign trade corporations perform specific business activities, and they practice "autonomous administration with responsibility for their own profits and losses." This should be the basis for separate dealings in commodities and materials within plan and outside plan. Reform of command-style commodity and material business subsidies requires that, insofar as possible, various subsidies be changed from hidden to open; and from subsidization of intermediary links (commodity flow links) to subsidization at both ends (producers and consumers); all possible being done to reduce subsidies by reducing command-style plans, narrowing two track price differences, and improving operation. When subsidies must be given or cannot be reduced, they should be applied where they do the most good, all possible being done to use such subsidies well.

Fourth is reduction in the kinds and amounts of low price command-style goods distribution and allocation, expanding enterprises' autonomy in production and administration, government orders gradually taking the place of command-style product allocation plans. The main way in which government regulates and controls markets should not be the distribution and allocation of actual goods, but rather through regulation and control of aggregate amounts and by providing policy guidance. Acceleration of the turnover of commodities and materials, thereby better linking production and demand requires a gradual expansion of contract orders between producing enterprises and commodity flow businesses, between one producing enterprise and another, and between one commodity flow business and another. This should enable an overwhelming majority of goods and materials to be produced and supplied against orders, with kinds, quantities, specifications, quality, and prices being agreed upon in contracts between suppliers and customers. At the same time, government should provide better market forecasting and guidance, providing services, including information, to enterprises.

#### 4. How To Rally Markets During a Sales Slump and When Large- and Medium-Sized Industrial Enterprises Under Ownership of the Whole People Are Depressed

Formerly, large- and medium-sized enterprises under ownership of the whole people produced according to state plan. The percentage of raw and processed materials supplied and products allowed within plan was substantial. With the sudden macrocontraction, it is the large and medium size enterprises that have found the going hardest. They cannot sell their products; the amount of goods in inventory mounts; and funds do not turn over easily. Despite the repeated infusions of loans and capital, the "triangular debt" among large and intermediate sized enterprises under ownership of the whole people continues owing after settlement. They have fallen into a vicious cycle of "the greater the infusion of funds, the greater the accumulation of goods in inventory, and the tighter funds become." Now the time has come for suitably stimulating investment demand to make markets rally.

So long as a situation exists of a sales slump and depression for large and intermediate industrial enterprises under ownership of the whole people, stimulation of investment demand will continue to require a strategy of alternate lightening and loosening. This means that investment in capital construction, and the scale of investment in new projects has to be strictly controlled. At the same time, the state's industrial policy must be given expression as follows: investment in the technological transformation of existing enterprises has to be suitably loosened, the present method changed whereby all technological transformation projects involving 50,000 yuan or more must be approved level by level by departments concerned. Only when enterprises' technological transformation is consistent with state industrial policy, and when enterprises have a certain amount of

their own capital should banks and industrial departments in charge provide support and encouragement. In this sense, the key to rallying markets, suitably stimulating demand, and prevention of another round of inflation lies in reform of the prevailing planning and investment systems. Without reform of the planning and investment system, "death will follow control, and chaos will ensue from a loosening of restraints." There will be inflation now followed by a decline in production as a result of which markets will be unable to develop, and there will be no good external climate for enterprise production and administration.

Given aggregate balance and industrial policy guidance, the opportunity should not be lost for reforming the investment system and methods for the technological transformation of large and intermediate enterprises under ownership of the whole people for the gradual building and formation of a mechanism for encouraging enterprises' further investment to accelerate the pace of technological transformation and technological progress that both avoid currency inflation resulting that an expansion of the scale of investment in capital construction can bring, and that uses an expansion of technological transformation to spark an increase in production and accelerate the means of production markets. Encouragement of enterprise (including individual) investment, can also bolster enterprises' reserve strength for development, hold down an overly rapid increase in consumption funds, and reduce consumer market pressures and assaults.

Expansion of the scale of enterprises' investment in technological transformation to further stimulate enterprise investment is the road that must be followed to improve enterprises' vitality and competitiveness, to improve the quality of the country's economy, and to develop the country's economy vigorously. Sources of funds for enterprise investment include, first, that portion of enterprises' after-tax funds retained for use in the development of production (the technological transformation funds, the funds for the development of production, the major repairs and overhaul fund, the technological development and the new products trial manufacture funds). Second is bank loans. Third is government financial assistance, funds allocations, and subsidies for investment that is consistent with industrial policy. Fourth is the use of bonds and stock shares as means of attracting social capital (from enterprises, social groups, and individuals). Even though we have adopted quite a few preferential means of attracting and encouraging foreign businessmen to invest in China, why do we not unfetter ourselves to encourage and attract investment by enterprises and individuals within the country.

Once governments at all levels reduce the scale and the proportion of small processing industry and administrative enterprise investment, they may correspondingly reduce financial disbursements in this regard. Thus, under certain conditions, there will be a gradual lightening of enterprises burdens, and various assessments

against enterprises should be eliminated as well. In order to encourage more enterprise investment to rally markets, stimulate production, and improve their ability to make further investment, the tax burdens of enterprises can be gradually lightened, industry by industry, and trade by trade, in accordance with state industrial policy, lowering income taxes, and cancelling regulation taxes to "turn on the water for the raising of fish." Thus, well-operated enterprises will be able to expand their reinvestment and their initiative and reserve strength for reinvestment. One should not simplistically term this "making confessions." The key lies in looking at how well the enterprise is run, whether after-tax profits are sufficient for further investment in the expansion of reproduction, and whether investment is consistent with industrial policy and market demand. Only when it meets these basic conditions can production steadily develop, markets thrive, and the state's financial revenues steadily increase.

Gradual increase industry-by-industry and trade-by-trade of enterprises' depreciation rates. In places having requisite conditions, experiments should be run in greater "lowering of income taxes, cancelling regulation taxes, sharing of taxes and profits, after tax loan repayment, and after tax contracting.

Suitable readjustment of tax, expense, and depreciation policies for enterprises to lighten their burdens requires adoption of a series of associated policies both to attain the goal of encouraging enterprise investment, and to prevent enterprises from expanding consumption or investing blindly. For example, it is necessary to set a percentage of after tax-profits that enterprises may use for investment, linking this at the same time to total consumption funds (including wages, bonuses, allowances, subsidies, and welfare funds). At the same time primary product prices of several kinds of energy and raw materials should be raised, forcing enterprises themselves to swallow some of the factors in price rises, reduce entry and raw and processed materials consumption, and orient their investment. At the same time, the enterprise production authority system should be clarified as a means of enhancing control over state-owned assets for the gradual establishment of a relatively standard enterprise system. In aggregate control, enterprises should be encouraged to reinvest, to stimulate markets, to further develop markets, to strengthen the vitality of large- and medium-size enterprises under ownership of the whole people, and to take new steps toward reform.

#### Second Round of Enterprise Contract Signing Slow

91CE0328A *Dalian CAIJING WENTI YANJIU [RESEARCH ON FINANCIAL AND ECONOMIC PROBLEMS]* in Chinese No 1, 15 Jan 91 pp 53-54

[Article by Hu Shaonian (5170 1421 0341): "Thoughts on the Contract Issue"]

[Excerpt] [passage omitted] II. Causes for the Slow Progress of Second Round of Contracts

The contract system has all sorts of problems, but there is no better form to replace it at present. So the state has decided to first stabilize and second improve the contract management responsibility system in the improvement and rectification stage. It has also set forth the guiding principle of "stabilizing policy, promoting what is beneficial, abolishing what is harmful, providing classified guidance, and making more contributions" and urged government organizations and enterprises to do a good job in signing the second round of contracts. All localities and departments have done a great deal of work in this regard and made some achievements. But the progress of work is not ideal. For instance, as of August 1990 less than 20 percent of state-run industrial enterprises in Zhejiang Province signed second round of contracts. This explains that the second round of contracts still has certain problems. They are:

1. The overall background of the second round of contracts is completely different from that of the first round. The first round of contracts were signed under the situation of overheated economy when enterprises' products sold very well on the market, enterprises' profits increased year after year, the increase rate was over two digits, and managers received bonuses nine out of ten times. The economic background of the second round is, however, different. There is a shortage of funds and no sign of improvement in the structural market slump. The task of readjusting product mix is arduous, and production situation is grim. For instance, in the first eight months of 1990, the total retail sales of social commodities of Zhejiang Province declined 2.6 percent and the gross value of industrial output at and above the township level barely remained the same. All this has made managers feel unsure about contract bases and afraid of difficulty.

2. Due to declining economic returns, it is hard to determine contract bases. During the first round of contracts, contract enterprises went through two completely different periods of overheated economy and sluggish market which caused enterprises' economic returns to fluctuate substantially. In addition is the fact that production costs continue to rise and overall economic returns slide, profits earned by contract industrial enterprises in Zhejiang Province, for instance, declined 43 percent and their profit delivery declined 24 percent in the first eight months of 1990 as compared to the corresponding period of the previous year. The deficit situation of enterprises is also becoming increasingly worse. Currently a third of state-run industries in Zhejiang Province have already incurred losses, and the amount of deficits have increased nearly 2-fold. What is worth mentioning is that local protectionism has gained ground, the economy of dukes and princes has been revived, and regional blockades have been imposed on one another. As a result, market cannot get started, thus

affecting production as well as sales. Under these circumstances, it is difficult to determine the bases of a second round of contracts.

3. The serious deficit situation of enterprises has added burdens to the next round of contracts. This issue is mainly manifested as: 1) The amount of losses incurred by money-losing products of profitable enterprises is shocking. Ninety-seven out of 162 (60 percent) profitable budgetary industrial enterprises of Hangzhou City have money-losing products. The amount of losses incurred by such products is greater than the total amount of losses incurred by money-losing enterprises throughout the city. 2) Some enterprises do not write off expenses and losses which should be written off and report fake profits. It is fairly common to see enterprises readjusting economic returns without authorization. The so-called phenomenon of "plant directors' profits" is quite prominent. 3) Losses incurred by reducing the prices of stockpiled products have not been reflected completely in some enterprises. All these hidden factors of losses will have a great impact on future economic returns.

4. Many unfavorable factors of reducing income and increasing expenses exist. In recent years, the state has introduced a series of policies to raise the prices of raw materials, energy, and transportation which have a great impact on the processing areas. According to incomplete statistics, due to the new prices of coal, electricity, and rail transportation set by the state, the industrial enterprises of Zhejiang Province had to increase production cost by 270 million yuan in 1991. In addition, there are too many fees and levies, enterprises' social burdens have increased, some enterprises cannot afford, thus directly affecting their economic returns.

5. Enterprises' anti-corruption campaign has made managers worry. Some managers fear that they may be held responsible for spending money to entertain guests and buy presents in past business activities. They think that it is not worth "taking the risk alone to increase the economic returns of the whole plant." As a result, supply and marketing personnel are reluctant and unwilling to go out—they would rather "sit around and be safe than engage in risky business"—has become common thinking. [passge omitted]

#### Difficulties Fulfilling Enterprise Contracts

91CE0328B *Dalian CAIJING WENTI YANJIU [RESEARCH ON FINANCIAL AND ECONOMIC PROBLEMS]* in Chinese No 1, 15 Jan 91 pp 54-55

[Article by Deng Chunling (6772 2504 6875): "The Causes of Difficulty in Fulfilling Enterprise Contracts and Solutions"]

[Excerpt] The contracts of most contract enterprises will expire in 1991. Doing a conscientious job in fulfilling contracts is an important link in adhering to and improving the contract system. The current situation

shows that a widespread problem is that many enterprises have difficulty fulfilling their contracts. What are the causes of this? This article will discuss this issue.

### 1. Causes for Difficulty in Fulfilling Contracts

A. Contract targets lack scientific nature. First of all, judged from most enterprises actually operating under a contract, the way to set a contract target is to use the amount of profits earned by the enterprise in the previous one or three years as a base. The factors of prices and increase rates are never taken into consideration. Resulting flaws are: On the one hand, it is difficult for well-managed enterprises to fulfill their tasks and retain more profits because their contract targets are set according to a higher base whereas it is easy for poorly managed enterprises to fulfill their tasks and retain more profits because their contract targets are set according to a lower base. This result of "whipping fast oxen" has seriously damped enterprises' enthusiasm. On the other hand, this method of determination has sharpened the contradiction between "fixed base" and "flexible market." The fact that contract bases are fixed to remain unchanged for several years while enterprises' market environment and energy and material supplies change constantly has made bases appear to be either too high or too low at times, losing their function as a standard and resulting in many inconveniences. Secondly, contract targets are set in a relatively relaxed and casual manner. In addition to various economic and technological targets (tangible targets), enterprises and supervising departments have to sign on such intangible targets as family planning, fire safety, afforestation, and ideological progress. The "excessively detailed specifications" of contract targets have not only dispersed enterprises' production energy but also increased the difficulty of target verification. Intangible targets, in particular, are hard to master. The implementation of such targets is bound to cause disputes. Thirdly, contracts regard only profit delivery as the main content of guarantee and make only principle demands on such targets as property appreciation, equipment replacement, and technological transformation. Since these targets have great flexibility, they often fall through when it comes to fulfilling contracts. Only the content of "linking total wage bill to profit delivery" will be left. The "excessively general specifications" of contract targets plus the limitation of contract period are bound to cause the short-term behavior of enterprises seeking maximum profits and ignoring technological transformation and progress.

B. Enterprise contracts lack competition. According to the demand of the central government, except for large enterprises whose contracts are assigned, all medium and small enterprises should properly introduce competitive mechanism. However judged from enterprises operating actually under a contract, most adopt the means of administrative orders. Enterprises sign contracts under orders or through negotiations. Even when enterprises hold public biddings, contractors are also chosen internally by the masses of plants. Very seldom is competitive

mechanism introduced. Flaws resulting from this practice are: In one-on-one negotiations, bids and pressures are low. Some contractors which are not sufficiently optimized and have poor qualifications consider only their own interests, thus dampening workers' enthusiasm. Some contractors guarantee only profits, but not losses. Some simply disappear when losses appear. Contracts lack binding force.

C. The responsibilities and obligations of contract awarders and contractors are imbalanced in the contracts. The current situation is that most contracts specify only the responsibilities and obligations of contractors (enterprises) but fail to clarify the responsibilities and obligations of contract awarders (government). For instance, some enterprises cannot find a market for products they produced under a command plan, but the government department that issued the plan does not take any responsibility for this problem. Some enterprises get penalized when they cannot fulfill a command plan on time due to the shortage of raw materials and funds, but the government organ that issued the plan does not take any responsibility for this either. These kinds of uneven contracts not only do not meet the requirements of economic contract regulations but are liable to confuse responsibilities and cause the two parties to rely on and shift responsibility to each other when there is any problem in the fulfillment of contracts.

D. The internal reforms of contract enterprises are not coordinated. After signing a contract, some enterprises fail to link wages to efficiency and award workers according to performance in the distribution system, thus dampening workers' enthusiasm for increasing production and income. The income of some enterprises' plant directors (managers) is disproportional to that of workers, resulting in new unfairness in distribution and dampening most workers' enthusiasm. A prominent problem in the management system is confusion in enterprises' financial management. After signing contracts, enterprises' financial personnel hold themselves responsible only to contractors instead of the state and higher authorities, nobody is in charge of necessary financial and economic systems, and violations of economic and financial disciplines and fabrications of economic returns occur constantly. For instance, well-managed enterprises try to conceal sales to retain profits whereas poorly managed enterprises try to jack up profits by exhausting all financial resources to seek favorable personal rewards. As a result, enterprises' management results cannot truthfully reflect enterprises' management situation and level, nor can they be used to assess managers' achievements, causing difficulties in fulfilling contracts.

E. The external reforms of contract enterprises are not coordinated. First of all, after the implementation of enterprise contract system, other reform measures (such as the pricing reform) have been introduced continuously and market situation has changed rapidly. All this is bound to distort the management results of enterprises and make it more difficult to fulfill contracts. For

instance, the price increases of raw materials, energy resources, and transportation have affected economic returns and weakened enterprises' ability to fulfill contract targets. Some enterprises can easily fulfill their profit target because the prices of their products have been raised. Second, after the implementation of enterprise contract system, the number of fees and levies has increased continuously and enterprises cannot afford them. For instance, joint security fees, environment sanitation fees, fire safety fees, and urban appearance control—all these fees and levies have been forced onto enterprises, disrupting enterprises' efforts to fulfill contract targets. [passage omitted]

### New Cooperative Form Initiated in Materials Supply

*OW3103132091 Beijing XINHUA Domestic Service in Chinese 0615 GMT 28 Mar 91*

[By reporter Huang Hao (7806 3185)]

[Text] Ningbo, 28 Mar (XINHUA)—A comprehensive form of cooperation in materials supply, characterized by multiple channels, means, and levels, has become an important component of China's planned commodity economy that combines economic planning with market regulation. It has fostered mutually complementary relationships among various productive elements of different regions in China, promoted the effective utilization and development of various resources, and spawned a new productive force.

According to the just-concluded national meeting on cooperation in materials supply in Ningbo, the total amount of materials supplied through such cooperation in China was worth more than 300 billion yuan during the "Seventh Five-Year Plan" period. The amount was over 90 billion yuan, or 16.3 percent more than the previous year, in 1990, a year of fairly great economic woes for various localities. This has had a positive impact on stimulating the market and promoting production.

It is learned that as China takes energetic steps to develop a planned commodity economy, the scope of cooperation in materials supply has progressed from exchanges of similar materials to exchanges of various productive elements, such as goods, funds, technology, and manpower. There are also other new cooperative forms, such as compensation trade and joint development of resources. Aside from departments in charge of coordinating materials supply, supply and marketing departments, economic cooperation departments, factories, mines, enterprises, science research institutes, and colleges and universities have joined the cooperative effort.

Due to the rapid development of cooperation in materials supply, China has made substantial progress in rationally deploying, developing, circulating, and utilizing its existing resources. In particular, the mutually complementary relationships between coastal areas and the hinterland, made possible by the former's financial,

technological, management, and manpower strength and the latter's abundant natural resources, have ensured steady economic development in coastal areas and accelerated economic construction in the hinterland.

The development of cooperation in materials supply has greatly enhanced the state's market regulatory role. According to an authoritative figure at the Ministry of Materials, while making continuing efforts to ensure the supply of materials needed by production and construction, departments in charge of coordinating materials supply will make use of preferential policies on the procurement and sale of materials to guide and promote production in the circulation field, and to strive to optimize the product mix and industrial structure of productive enterprises and expedite the circulation of funds and production means.

### Market Prices Up 2.1 Percent in 1990

*HK0103105391 Beijing CEI Database in English 1 March 91*

[Text] Beijing (CEI)—Statistics released by China's State Statistical Bureau on 22 February show that market prices in 1990 in China rose by 2.1 percent and retail sale prices were 2.1 percent up from 1989, which was much lower than the rising rate of 17.8 percent in 1989. Retail sale prices of most food remained stable in 1990, while prices of agricultural sideline products at country fair trade fell. All localities regulated prices for some commodities and service industries in the fourth quarter of 1990 and prices in some big and medium-sized cities rose by a large margin.

Living expenses for both rural and urban people in 1990 were 3.1 percent up from 1989.

Price variations for some commodities and service industries:

	(percentage)	
	90/89	Dec. 90/ Dec. 89 (town)
Food	0.3	1.8
Grain	-4.8	-6.3
Meat, poultry and eggs	-2.1	-3.1
incl: pork	-4.0	-4.3
Aquatic products	-0.7	5.7
Cigarette, liquor and tea	0.9	1.6
Pastry	7.8	9.8
Garment	7.1	6.3
Daily-use articles	1.9	1.4
Medicine and medical apparatus	2.4	1.7
Fuel	8.2	32.0
Agricultural means of production		5.5
Service	20.9	11.6

## PROVINCIAL

### Guangdong Province Strengthens Price Reform

HK2003074091 *Guangzhou NANFANG RIBAO*  
in Chinese 19 Mar 91 p 1

[Report by special correspondent Huang Liwu (7806 4539 2976) and reporter Wang Jingtang (7806 6975 2768): "Guangdong Increases the Weight of Price Reform"]

[Text] Since last year, under the leadership of the provincial government, price departments at various levels in the province have grasped the good opportunity arising from the decrease in price to increase the weight of price reform, thus doing much work for economic development.

In the past several years, prices in the province greatly increased, but last year's retail price index decreased 4.4 percent compared with the previous year, and it was a year which first saw the decrease since reform and opening up. Price departments in the whole province grasped this good opportunity and, within the domain of what was permitted by the state's policy, adjusted the prices of 94 kinds (categories) of commodities for which the state had set the prices. Calculated on the basis of annual output or sales volume, the total amount of adjusted prices was as high as 3.735 billion yuan. For example, the producer price of each tonne of white sugar was increased from 1,650 yuan to 2,400 yuan, which was basically the market price. The prices of important means of production and transport fees, such as coal, iron ore, chemical fertilizer, postage, and water and railway cargo transport, have all been adjusted correspondingly to strengthen these enterprises' ability for self-accumulation and self-development and to support stability and development of production. At the same time, liquefied petroleum gas, civil coal, city transport, and piped water all have their prices or fees undergone necessary adjustment to enable economic operation to be more rational.

Last year, the reform of the price management system also made new progress. The main achievement was that on the premise of developing and improving market mechanism, we established and perfected the new order of prices. This included strengthening the macroeconomic mechanism for regulating and controlling price; checking the overheated economy; adjusting the strength of price management; and abolishing the management of price disparity rate for a majority of light industrial products and adjusting the degree of disparity for the small number of commodities which still practice management of price disparity to benefit enterprises' operations. Some commodities which practice the price-declaring system have also suspended the system, so as to further expand the enterprises' self determination right to fix prices.

This year, according to the spirit of Seventh Plenary Session of the 13th CPC Central Committee, our province's price departments will further actively and steadily promote price reform. The goal is to build and perfect a rational price formation mechanism and management system, and through adjusting the prices of important means of production and opening the prices of ordinary commodities, to further strengthen the vitality of enterprises, especially state-run large- and medium-sized enterprises.

### Guangdong Poised To Carry Out Price Reform

HK2603070791 *Guangzhou Guangdong Provincial Service* in Mandarin 0400 GMT 23 Mar 91

[Text] This station's reporter (Yang Zhiqiang) interviewed (Liu Shijian), director of the provincial price bureau. Following is their conversation:

Yang: Director (Liu), Guangdong's prices were brought under fairly successful control last year. How are prices this year? What are the features in this respect?

Liu: Last year saw the trend of the general index of provincial prices tend downwards for the first time since we introduced reform and opening up. As compared with the previous year, the retail price index of commodities went down 4.4 percent. In reality, we made a step forward in price reform last year. The amount involved in readjusting prices totaled three billion yuan province-wide. But the readjustment caused little shock. As a result, prices as a whole steadily declined.

Yang: In general, will retail prices keep going down this year as they did last year?

Liu: If prices go down for a long time, it will be impossible for some trades to overcome their difficulties. Long-term price cuts will reduce producers' income. If prices are lower than costs, production will be adversely affected. Therefore, it is necessary to increase prices reasonably so that the economy will function properly. The people's congress has laid down a principle that prices can be increased as much as 10 percent. Namely, prices are allowed to move up at a rate within 10 percent. For instance, prices of petrochemical products, iron and steel products, and some consumption goods on which the subsidy excessively burdens the government, will be readjusted gradually and at opportune moments. Of course, the extent to which the price readjustment is acceptable to the people and enterprises will be taken into account. If prices of commodities indispensable to people's livelihood are readjusted upward, the government will surely provide financial subsidies. The people need not have any misgivings whatsoever in this respect.

However, they should not expect that prices will go down indefinitely. That is impracticable. In 1991, while stabilizing and controlling prices, we will try to solve outstanding relevant contradictions and push forward price reform.

Yang: Since we have to both control prices and carry out price reform as you said, what are the key commodities over which the Guangdong Government will exercise price control this year?

Liu: This year we will continue to end unreasonable charges. The provincial government has committed the concerned departments to fulfill this task in the first half of the year and will send work groups to various localities to check up on the work. If the task remains unfulfilled by that time, the provincial government will take more radical measures. In the second half of the year, we will conduct a provincewide check-up on prices. Moreover, we will give play to the grass-roots stations of price supervision and mobilize the masses to exercise supervision. Apart from demanding that shops sell their commodities at marked prices, we will advocate selling goods at marked actual prices.

## FINANCE, BANKING

### 'Unbalanced' Spending Cause of Inflation

91CE0333A *Dalian CAIJING WENTI YANJIU [RESEARCH ON FINANCIAL AND ECONOMIC PROBLEMS]* in Chinese No 1, 5 Jan 91 pp 45-49

[Article by Cheng Minghong (4453 2494 4767): "Unbalanced Growth of Government Spending Key to Inflation"]

[Excerpts] [passage omitted] I. Expansionary Spending Pattern an Important Cause of Inflation

Apart from 1985, when it chalked up a book value budget surplus of 2.16 billion yuan, China ran up a deficit each year in the decade between 1979 and 1988, accumulating a combined deficit of 65.09 billion yuan for the entire period. According to the method of calculating budget deficits in common use in the West, the deficits in over these 10 years amounted to 169.7 billion yuan after deducting incomes from domestic and foreign debt. In recent years the budget deficit has soared so much that seemingly nothing can bring it down. In 1989, the book value budget deficit hit 9.54 billion yuan, while the real deficit was 36.97 billion yuan. The trend is for the deficit to continue to balloon rapidly. We think this situation is caused by the fact that although the national government is no longer "collecting all revenues" as in the past, it still "pays for everything" on the expenditure side. The spending function is not well defined and the government tries to do too much. As reform is being deepened steadily and at a time when government administration is being separated from enterprise management and management is being separated from ownership, the state continues to spend large sums of money

to make good the losses of enterprises, losses which are apparently policy-induced but are actually the result of management, straining to prop up enterprises which make no profits to speak of, even as it tries mighty hard to develop a commodity economy while stressing the role of market mechanism. Mention enterprise vitalization, and the state inevitably delegates financial power and lets the enterprise assume its due responsibility while paying for such expenses as enterprise transformation and new product trial manufacturing. In its relations with institutions, the treasury assumes the bulk of all administrative expenses. In its relations with individuals, it pays for most expenses from cradle to grave. In state-locality relations, the state also takes care of projects in basic industries and the infrastructure that involve large investment and a long time to pay off. The result is that the localities become preoccupied with immediate local interests and go all out to develop projects that have a short lead time, require little investment, and turn in a profit quickly. Hence, the over-development of the light industrial sector. The state-pays-for-everything spending pattern is an expansionary spending pattern, an inevitable outcome of which is the demand for government funds exceeding what the treasury is able to afford. And when government lives beyond its means, a deficit necessarily ensues.

When the budget is in the red, the government must take some action to close the gap. In general, it has four options: raise taxes, borrow, dip into the surplus fund accumulated over the years, or overdraw at the bank. Raising taxes, whether levying new taxes or increasing current tax rates, is no expedient to close the budget gap, as it is heavily constrained by political and economic factors. Borrowing, whether at home or abroad, is a means whereby the state pools a portion of the idle funds in society in the form of debt. As it does not alter the total volume of social funds, it will not cause inflation, and as such provides a fairly good way to make up the deficit. But there comes a point in borrowing when constraints like the ability of an economic unit or individual to pay back or the credit-rating of a nation in world economic relations begin to have an effect. The government's budget surpluses over the years were deposited in the People's Bank of China either as a government deposit or as an additional contribution to the bank's credit fund. To the bank, they are a source of funds and have been used as such. If the government dips into the surplus just as the bank's reserve fund is running low, the bank will be forced to tighten credit quickly, expand credit, or increase the money supply, which may lead to inflation. Yet the fact of the matter is that given China's fiscal history in the past several years, there is simply no surplus we can resort to. Overdrawing at the bank may close the budget gap in the short run. It actually means using credit from the bank to make up the deficit. Depending on the volume of deposits in the bank relative to its level of lending, overdrawing may have varying effects on the economy. If bank deposits exceed lending and if the excess is larger than the amount to be overdrawn by the government, then the bank is fully

capable of advancing the government that sum of money with no adverse effects on the economy. In a second scenario, bank deposits exceed loans but by an amount equal to or less than the size of the proposed overdraft. In this case the bank must either expand credit or issue more money so as to pay the overdraft. Under these circumstances, the budget becomes a direct cause of inflation and a major source of inflationary pressures. In the third scenario, the bank's loans exceed its deposits and the overall scale of credit is expansionary. Credit expansion has already occurred. If the government now overdraws at the bank, it would be like adding fuel to the flames, and the excess of the money supply over and above the required amount of money in circulation will increase even more, further stimulating inflation. The several rounds of inflation, large and small, that China experienced in the past decade fit into the second and third scenarios.

## II. The Unbalanced Growth of Government Spending Is an Important Cause of Inflation

How government funds are allocated among the different regions in the nation and the different sectors of the economy directly affects the proportionate relations between circulation and consumption and the production structure, exchange structure, and consumption structure of the domestic economy. Therefore, the mix of principal items of expenditure as well as the way in which money is distributed within an item are immensely significant. The most important is the pattern of capital construction investment and consumption-oriented spending.

### A. The Mix Of Capital Construction Investment

A striking characteristic of socialist finance is that it is production-and construction-oriented, epitomized by the fact that a considerable portion of government spending goes to capital construction investment. Capital construction investment is the formation of fixed assets through the allocation of government funds as a result of acquisition, construction, installation and other related activities under the guidance of a particular industrial policy. China's current production structure, for instance, was built up gradually through year-by-year government investment. Since this kind of spending forms new production capacity and shapes the nation's industrial structure, capital construction spending has a critical place in the overall spending structure. If such investment is unsound in quantity or direction, it will directly lead to an imbalance between aggregate social supply and aggregate social demand and cause inflation.

#### 1. The demand for capital construction investment itself has an effect on aggregate social demand.

One characteristic of capital construction investment is that it deprives the market of some capital goods continuously for a sustained period of time, a demand that will not provide any capital goods during this time. As Marx said, "It will not supply any means of production and means of subsistence and will not produce any useful

consequences for a year or more. Instead it will take away labor, means of production, and means of subsistence from aggregate output for the whole year."<sup>1</sup> If capital construction investment accounts for an excessive piece of the spending pie, it will result in an imbalance between the supply and demand of materials, pushing up demand for means of production and means of subsistence on the entire market and boosting their prices. [passage omitted]

2. The volume and structure of aggregate supply provided by capital construction investment affects the volume and structure of aggregate social supply as a whole.

Capital construction investment in the budget is intended to provide a material basis for aggregate social supply in the interest of the long-term development of the national economy, on which it has a decisive impact. If the government under-invests in capital construction persistently, it is bound to decrease aggregate social supply. On the other hand, while its impact on future production is substantial, capital construction investment does not have a major impact on current productive forces. Because of this elasticity, capital construction investment has become the primary target for budget cutters during each round of economic readjustment. Consequently capital construction investment has both grown and shrunk rapidly as a share of total spending in the budget. (See Table 1)

Table 1—Budgetary Allocations for Capital Construction (1979-1988)

Year	Amount (in billion yuan)	As % of Spending For Year
1979	51.47	40.4
1980	41.94	34.6
1981	33.06	29.7
1982	30.92	26.8
1983	38.28	29.6
1984	48.89	31.6
1985	58.38	31.6
1986	67.18	28.8
1987	62.81	25.7
1988	63.34	23.4

Source: *Financial Statistics of China, 1950-1988*

As enterprises are given more financial autonomy and are allowed to retain more profits, participants in the investment game have increased and diversified. To prevent the economy from overheating and overexpanding and to cut the budget deficit, capital construction investment can be trimmed as appropriate but only when guided by clear policies on the extent, volume, and structure of retrenchment. If capital construction investment in the budget is cut back too drastically and too rapidly for the present economic structure, thereby worsening the "bottleneck," it will not be able to meet the

basic demand of economic growth. Nor will it be able to regulate and control the national economic structure, ultimately resulting in insufficient aggregate supply and widening the supply-demand gap.

Even as total investment in capital construction declined, within capital construction itself there has been a shift toward nonproductive capital construction at the expense of productive capital construction; investment in the former rose sharply while investment in the latter fell. (See Table 2)

Nonproductive capital construction investment is indispensable to socialist construction and to raising the people's living standards. Before reform, we did not pay enough attention to non-productive capital construction investment. We "cheated" on nonproductive capital construction investment even as we over-emphasized productive investment. For this reason, we specially set aside some money to finance a number of nonproductive capital construction projects in the first years of reform. We did what we must do. But there is an objectively sensible and balanced relationship between investment in productive capital construction and investment in its nonproductive counterpart. If we invest in nonproductive capital construction projects that do not directly provide material goods too much too rapidly while persistently under-investing in basic industries and basic facilities that are enormously important to the development of the national economy such as energy, transportation and communications, and raw materials, there will not be enough staying power for economic development, which will seriously hamper national economic development, undermine the utilization of existing productive forces, and weaken the ability of society to provide in the future. And if society is not able to meet the need of ever-growing social productive forces, the effective results of nonproductive capital construction will be compromised.

**Table 2—Budgetary Allocations for Capital Construction By Category (1979-1987)**

Year	(Total spending on capital construction = 100)		
	Economic Construction	Social, Cultural, & Educational	Administrative Expenses
1979	93.8	3.5	1.2
1980	91.2	4.4	2.0
1981	89.7	5.3	3.6
1982	86.8	6.8	4.5
1983	86.9	7.8	2.6
1984	85.5	7.7	3.0
1985	83.9	9.0	6.3
1986	83.1	8.8	5.5
1987	84.2	8.8	5.0
Change in %, 1979-1987	-9.6	+5.5	+3.8

Source: *Financial Statistics of China, 1950-1988*

Moreover, where the government puts its capital construction investment dollars has a suggestive effect on investment in society overall. When government is putting up a forest of buildings, hotels, restaurants, and other structures, there will be droves of imitators below, further expanding nonproductive capital construction investment throughout society. Aggregate social supply will further diminish and inflation will be inevitable.

#### B. The Structure of Consumption-Oriented Government Spending

Major items of consumption-oriented government spending in the budget include culture, education, science, payments for the disabled, social welfare, national defense, administration, and price subsidies. Such spending is basic to ensuring that a labor force of a certain quality and quantity will be created and impacts the improvement of social productive forces directly and indirectly. This kind of spending is the government's responsibility and is certainly not a drag on the production process. Be that as it may, the fact remains that these expenditures are consumption-oriented, do not enter direct production, and create no value. Accordingly, if such spending takes up too big a share of all government spending, it will not only affect production but also induce inflation. Expenditures most likely to cause inflation are administrative costs and price subsidies.

1. The sharp jump in administrative spending in the past decade has touched off an explosion in social consumption demand.

As part of his social deduction theory, Marx predicted that this kind of spending "will decline appreciably in modern society and continue to decrease as society develops."<sup>2</sup> Yet China's experience in the last few years has been that administrative costs have been rising so fast that they persistently exceeded the projected level in the budget. (See Table 3) In absolute terms, administrative expenses in 1988 were 20.85 billion yuan more than in 1979, an increase of 330.4 percent. In 1988, administrative expenses accounted for 10 percent of government spending, the highest since 1951. Social institutional consumer goods retail sales hit 66.5 billion yuan in 1988, up from 25.66 billion in 1983, up 160 percent for the period or 26.6 percent annually on the average. Administrative expenses are the fastest-growing item in all government spending.

**Table 3—Administrative Expenses as a Share Of Total Government Spending (1979-1988)**

Year	Amount (in billion yuan)	% of Spending for Year
1979	6.31	4.9
1980	7.55	6.2
1981	8.26	7.4
1982	9.08	7.9
1983	10.31	8.0
1984	13.98	9.0

**Table 3—Administrative Expenses as a Share Of Total Government Spending (1979-1988) (Continued)**

Year	Amount (in billion yuan)	% of Spending for Year
1985	17.11	9.3
1986	22.00	9.4
1987	22.82	9.3
1988	27.16	10.0

Source: *Financial Statistics of China, 1950-1988*

The alarming growth in administrative expenses is partly the result of a legitimate need to restore some essential administrative and legal organs of the government destroyed during the Cultural Revolution. But it has to do with do with guiding thought even more.

Soaring administrative expenses have not only significantly shifted government spending in the direction of consumption but also set an example for advance, high consumption in society as a whole. It has exacerbated commodity shortages on the market and widened the gap between the supply and demand of consumer goods. By pushing up social consumption demand and boosting prices, it has directly led to inflation.

2. The widening scope and rising amounts of price subsidies has saddled the national coffers with a heavy burden.

Price subsidies constitute an important economic tool that the government can use in accordance with the political and economic policies and principles at a particular point in time. They play a constructive role in ensuring the material interests of economic units and members of society and promoting economic growth. Some subsidies, such as those for agricultural products and certain service trades, are socially beneficial and indispensable to socioeconomic life. Since subsidies cost a huge amount of government money, we must not let them expand so much as to take up an undue part of the budget or to exceed the government's ability.

First introduced in China in 1953, price subsidies were limited to the circulation area to begin with and were gradually expanded to production. Over time price subsidies proliferated as subsidies on means of subsistence were joined by those on means of production. As a result, commodity price relations and economic relations have become distorted somewhat, leading to economic confusion. Moreover, the practice of subsidizing the prices of some commodities irrespective of their performance has caused over-consumption and waste, a major factor behind consumption and investment explosion. Practice proves that when price subsidies are set too high and when they account for an overly large share of government spending in the budget, they have adverse consequences for national economic development and saddle the treasury with an onerous burden, a principal reason

why the government fails to balance the budget. Table 4 shows government spending on price subsidies from 1979 through 1988.

**Table 4—Budgetary Allocations for Price Subsidies 1979-1988**

Year	Government Spending (billion yuan)	Total Price Subsidies (billion yuan)	Percent of All Spending for Year
1979	127.39	18.07	14.2
1980	121.27	24.21	20.0
1981	111.50	32.77	29.4
1982	115.33	31.84	27.6
1983	129.25	34.20	26.5
1984	154.64	37.00	23.9
1985	184.48	29.95	16.2
1986	233.08	28.45	12.0
1987	244.85	29.46	12.0
1988	270.66	31.68	11.7

Source: *Financial Statistics of China, 1950-1988*

### III. Adjust Government Spending and Eliminate Factors in the Pattern of Government Spending That Cause Inflation

From the theoretical and practical analysis above, we realize that the lopsided growth in government spending is an important cause of inflation [passage omitted].

A. Discontinue the old practice of "having the government pay for everything" totally and establish a new spending pattern consistent with the development of a planned commodity economy. In our opinion, a government spending pattern that is both scientific and consistent with the development of a planned commodity economy should do the following:

1. Clearly establish a division of labor between the government and the market. The market should regulate economic proportionate relations that should be regulated by the market and supply commodities that it should supply. The pattern of government spending should be based on the administrative functions of the state as well as its function of macroeconomic regulation and control and its management of state-owned properties. The spending mix should be an orderly system that sets priorities, regulates the key proportionate relations in the national economy, and provides the national economy with commodities and labor services that are strategically significant and have clear social benefits.

2. Lay down clearly the extent and magnitude of the government's financial responsibility toward enterprises, institutions, and individuals based on the principle of economy and efficiency. As far as enterprises are concerned, the state should firmly refuse to make good their management-related losses. The government

should also wash its hands, financially speaking, of such items of expenditure as potential-tapping and transformation funds for enterprises and simple building costs. [passage omitted.]

3. Delineate clearly the responsibilities between the central government and localities. The central government and local authorities are two different levels of government, each with its own responsibilities, rights, and interests. Their jurisdictional boundaries should be clearly drawn. As the tax system is being improved, the tax separation system may be introduced in those provinces and municipalities that are economically better positioned and well managed to determine where central government spending should end and where local spending should begin. There are several ways to pay for major investment projects in basic industries and the infrastructure, depending on the respective responsibilities of the central government and its local counterparts and in accordance with the principle, "He who benefits should pay." The central government may assume sole financial responsibility, it may pay for the project jointly with the local government concerned, or the local government may pick up the tab completely. That way pressures on the national coffers will be eased, which would help the drive to optimize the national economic structure.

B. Carefully determine what would be a reasonable percentage of all government spending to go to capital construction investment. Work out a proper mix of capital construction investment.

1. At one point we concluded from our experience in national construction that capital construction spending should account for about 40 percent of total government spending in the budget. However, now that the fiscal management system has been reformed, extra-budget funds almost equal funds in the budget, the state is no longer the sole major investor but has been joined by other investors, in short, now that the era of state-monopolized capital construction investment is over, capital construction investment in the budget cannot and need not reach 40 percent of all government spending. But what would be an appropriate ratio? The answer should be found through study, analysis, and comparison in light of the situation at any given time. There should be no absolute iron-clad number. Certainly, in our judgment, the percentage of capital construction investment in the budget should remain fairly stable for at least the duration of the five-year plan, preferably between 30 and 35 percent.

2. In determining a proper mix of capital construction investment and deciding where to spend our investment dollars, the most important thing is to handle the relations between production investment and nonproduction investment properly and distribute the investment funds soundly within the realm of production investment.

Today we have paid back in part what we "owed" the nonproduction sector in terms of investment. Henceforth we should stabilize nonproductive capital construction investment at a reasonable level while making sure that such investment grow at a rate not less than previously on a per capita basis. The construction of government buildings, hotels, and other structures should be strictly limited. Productive capital construction investment should be our top priority.

Within productive capital construction itself, most investment dollars should go to "bottleneck" projects in the national economy to form a sound structure and distribute productive forces efficiently so as to provide a solid foundation for aggregate social supply.

#### C. Adhere to The Principle of Efficiency and Allocate Consumption-Oriented Spending Properly

1. Increase investment in education development and scientific research. The purpose of accelerating educational and scientific research is to create even more advanced productive forces for the future and pave the way for future national economic development. Government budget planners should be far-sighted enough to realize this. Even as we step up spending on education and science, we must carefully determine where the proper place to spend our money is and how to manage such spending so as to put what limited funds we have to the best possible use.

2. Make a determined effort to trim administrative expenses. A government that is honest and practices strict economy is what the people want. It is also what our party and government strongly promote. Administrative expenses must be firmly curtailed, at least to within the projected level in the budget. There must be no budget overruns.

3. Gradually reduce the scope and size of price subsidies and curb the trend toward soaring price subsidies by bringing them under effective and reasonable control. The Ministry of Finance may replace hidden subsidies with open subsidies, direct subsidies with indirect subsidies, using a variety of methods and on a case-by-case basis. [passage omitted]

(Responsible editor: Yang Ziquan [2799 1311 2938])

#### Footnotes

1. *Das Kapital*, Marx, Vol 2 p 350.
2. "The Critique of the Gotha Program," Marx, p 12.

#### Continued Issuance Treasury Bonds Planned

OW0304231791 Beijing XINHUA Domestic Service  
in Chinese 1313 GMT 3 Apr 91

[By reporter Jiang Maosheng (1203 0602 3932)]

[Text] Xian, 3 Apr (XINHUA)—At a national debt work meeting held in Xian today, it was disclosed that the

government in 1991 will continue to issue treasury bonds totalling 10 billion yuan and special national debt bonds totalling 2 billion yuan.

Since the start of reform and opening to the outside world, China has issued national debt bonds for 10 consecutive years and raised more than 100 billion yuan of funds for key construction projects. In 1990, it issued treasury bonds exceeding 9 billion yuan, and overfulfilled its planned target by 68.7 percent.

In order to promote a gradual shift from selling national debt bonds mainly through administrative means to selling them through the market, the Finance Ministry has decided to begin buying and selling treasury bonds on contract in some selected localities. In addition, a national debt market will open in all prefectures and cities. The Finance Ministry calls on local financial departments to work in cooperation with banks, public security organs, and industrial and commercial departments to improve market management, and, in particular, to pay attention to banning blackmarketing of treasury bonds so as to protect the people's legitimate rights and interests and to maintain public order.

#### **ADB Approves Technical Assistance Grant**

*OW1604110591 Beijing XINHUA in English  
1055 GMT 16 Apr 91*

[Text] Manila, April 16 (XINHUA)—The Manila-based Asian Development Bank (ADB) has approved a technical assistance grant of 600,000 U.S. dollars to China for the audit administration of the country, the ADB announced here today.

The objective of the grant is to help improve the auditing standards of the State Audit Administration by upgrading the skills of foreign investment audit staff of the foreign investment audit department and review the audit system of the department and propose measures to improve office automation for the preparation of audit reports and records, the bank said.

The grant will be implemented over two years by a team of consultants from an international consulting firm. The team will consist of specialists in government financial accounting and auditing systems, financial and performance auditing and audit education, the bank added.

#### **Bank of Communications Expands Business**

*OW1604101691 Beijing XINHUA in English  
0950 GMT 16 Apr 91*

[Text] Hangzhou, April 16 (XINHUA)—The Bank of Communications has established branches in 68 large and medium-sized cities in China and agency relations with 265 overseas banks.

China's first comprehensive bank, the bank is equipped with advanced equipment that enables it to conduct business in line with international conventions.

As a result, its capital funds totalled 72.8 billion yuan last year, up 50 percent over the previous year. In addition, its savings deposits increased by 13.82 billion yuan last year.

#### **Shenzhen Stock 'Craze' in Perspective**

*91CE0347A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 4, 28 Jan 91  
pp 16-17*

[Article by Li Shuzhong (2621 2885 1813) and He Guanghuai (0149 1639 2037)]

[Text] Stocks, an unfamiliar item to most people in the mainland, have today made their way into the homes of ordinary citizens in Shenzhen.

Shenzhen has been in the midst of an astonishing "stock market craze" since March 1990. Stock prices of the five publicly listed companies in Shenzhen have skyrocketed. According to the Shenzhen Securities Corporation, the price of these five stocks rose more than ten-fold in the last ten months of 1990.

How far has the stock market craze gone in Shenzhen? Why is it so hot? What are the good and bad sides of the situation? What does the future look like?

#### **Sizzling**

Stocks have become the talk of the town in Shenzhen. On the way to work, at restaurant tables, and in many other public places you can hear people everywhere talking about opening price, closing price, market profit ratios, stock conversions, etc. So far the Shenzhen Municipal Government has only approved the public listing of Shenzhen Development Bank, Anda Transport, Ltd., Wanke Enterprises, Ltd., Jintian Industries, Ltd., and Yuanye Industries, Ltd. The stock of these five companies is bought and sold at 11 government-approved stock exchange units, including the Shenzhen Securities Corporation.

These reporters went to the Shenzhen Securities Exchange Corporation and found a great throng of people jostling their way toward the counter on a trading floor of only 100 square meters. Because the number of people wishing to buy stock greatly exceeded those wishing to sell, the imbalance between supply and demand was quite pronounced. Everyday many people take benches and chaise lounges and wait in line all night outside the entrance to the door to the exchange site.

In order to answer people's questions about stock market conditions, state policies, etc., the Shenzhen Municipality has set up a "149" telephone number where people can call for information. An average of more than 100 calls come in per day. All sorts of courses in "stock market basics and trading tricks" are popping in response to strong demand. Radio stations, television stations, and many newspapers and periodicals have all

broadcast and printed reports on stocks and stock markets. A program broadcast by Shenzhen Television giving market news and analysis has won the highest viewership.

The people buying and selling stock include people who have not done well in business, university professors, kindergarten teachers, government functionaries, enterprise leaders, laborers, peasants from the nearby countryside, and even some housewives. According to incomplete statistics, about 100,000 people in Shenzhen own stock, which is five percent of the population. Although this percentage falls far short of the 20 percent in Taiwan and the 12 percent in Hong Kong, it is quite amazing, given the fact that the Shenzhen market was only established two years ago.

### Seeking the Source of the Heat

The stock craze in Shenzhen has its underlying political, economic, and social factors.

Relatively early on, the shareholding system was introduced in the course of Shenzhen enterprise reform and the securities market was developed before the people had been psychologically prepared. As early as 1986 Shenzhen formulated the "Temporary Regulations for Experimental Introduction of the Shareholding System in State-Run Enterprises in the Shenzhen Special Economic Zone." More than 200 enterprises in Shenzhen have now implemented the shareholding system, of which more than 80 are limited liability companies. In April 1988 the Shenzhen Securities Corporation put up stock from the Shenzhen Development Bank for sale, and the stock market in Shenzhen was born. After a few years of exploration, the Shenzhen securities market learned from foreign markets and gradually began to establish its style of operation. The people of Shenzhen also gradually became aware that stock could be traded and that value could increase in the course of exchange. Understanding of stock investments grew stronger and stronger.

The nation's political economic stability provided an excellent opportunity for economic development in Shenzhen. After a year of coordinated and stable development of all economic indices in 1989, growth continued to proceed apace in 1990, and the confidence in the stock market greatly increased.

Of course, the most direct cause of the stock craze in Shenzhen was the clearly demonstrated fact that there is money to be made. When the Shenzhen Development Bank first sold its stock to the public in 1987, there were few buyers. Those trying to sell the stock went door to door, but few people were interested. In order to support the shareholding reform, the Shenzhen government mobilized people in all sorts of meetings, and some leaders went home to persuade their wives to take money out of savings to buy stock. In spite of all these efforts, the stock issue by the Development Bank only raised half of the targeted ten million yuan. Later, because the bank was well run, the market value of the 20-yuan shares had

increased to 60 and 70 yuan, an increase of more than 3-fold in one short year. The news that stock had earned huge profits attracted more and more people. By the time Wanke, Jintian, Anda, and Yuanye issued their stock, buyers were standing in long lines.

Now that the stock craze has begun, another reason why the popularity of stock has burgeoned so rapidly is the fact that supply and demand are so badly out of balance. The total stock issue of the five companies listed on the Shenzhen market is 270 million yuan, while the savings deposits of the urban and rural residents of Shenzhen amount to more than 5 billion yuan. The additional presence of cash in circulation, funds from out of town that are used to buy stock, and funds from abroad that are gradually coming in, have made for a situation in which demand far outstrips supply. This has continually pushed stock prices to new heights.

### What are the risks?

The Shenzhen stock market is not actually, as some people think, completely risk-free. There have been several large price fluctuations in the last two years. In the biggest of these fluctuations prices fell more than 30 percent in seven days. Some people lost their life savings and others even went deeply into debt.

There are three main factors which cause big price fluctuations on the Shenzhen market.

The first is related to politics or policies. After the political unrest of the year before last, many people rushed to sell off their stock, and in a few short days the price of shares in Wanke fell 36 percent, while the price of a share in the Development Bank fell from 70 to 53. In mid-June 1990, in order to curb stock market prices that were rising too rapidly, the Shenzhen Municipal Government imposed the regulation that prices would not be allowed to rise more than 1 percent per day, while prices would be allowed to drop by as much as 5 percent per day. The lack of symmetry in these limits raised worries, and the market dropped 6 percent in three days.

The second factor is economic. Two of the five companies listed on the Shenzhen stock exchange primarily produce textiles, and most of their products are sold to the United States. When some members of the U.S. Congress proposed during the first half of last year that China's most favored nation status be canceled, it caused stock prices to fall. They did not recover until the situation improved.

The third factor is psychological. There was once a rumor that the president of one of the companies had embezzled a huge amount of funds and fled abroad. Prices for that company's stock fell immediately. The president rushed about to stamp out the rumor, but to no avail. Prices did not recover until he at last appeared on television during prime time.

Although changes on the Shenzhen market are hard to predict due to the aforementioned factors, the risks of

buying and selling stock on the Shenzhen market are generally lower than they are abroad. Apart from the fact that supply and demand are out of balance, these five companies went through a rigorous screening process before they were listed. Their profits are relatively healthy, they show promise for the future, and there is not a great chance of them losing money or going out of business. According to the Shenzhen Securities Corporation, the risk involved in buying and selling stock will increase as the variety of listed stocks increases, the imbalance between supply and demand is alleviated, competition between enterprises heats up, and the operating mechanism of the stock market improves.

#### Where are the benefits?

Although the Shenzhen stock market was only born two years ago, its operations have already begun to show some economic results.

The stock market has raised funds for economic construction. The five companies listed on the exchange have raised hundreds of millions of yuan for use in production. By far the greatest part of these funds come from consumption funds that had been in the people's hands. Also, through taxes, the state can obtain funds in the process. According to relevant departments in the Shenzhen Municipal Government, the state received more than ten million yuan last year in stamp taxes on stock transactions.

Another benefit that has come from the stock market is that it has stimulated the improvement of internal mechanisms, especially self-restraint mechanisms, in companies that have issued stock. Now that there is a vehicle and impetus for accumulation, enterprises are doing a relatively good job of correcting the problem that afflicts many enterprises these days—short term behavior.

Companies which have issued stock on the market must regularly inform the public about their operations and finances. From the enterprise's perspective, this brings both pressure and motivation. The president of Jintian Industries, Ltd., said with deep feeling, "This pressure is too much. As soon as you make a big mistake on a certain policy, or if your performance goes down, it is reflected immediately in the price of your stock. Falling stock prices directly affect your company's reputation, which causes a series of problems involving sales, bank loans, and what not." In addition, most of the workers and staff in these enterprises have bought stock, so they are especially conscientious in their work. The Shenzhen Municipal Commission for Restructuring of the Economic System carried out a study during the first half of last year on the five enterprises that had been listed on the exchange for one to two years. The study indicated that after these enterprises issued stock their output increased by an average of 100 percent, their total profits increased by 253 percent, and net assets increased by 87 percent. Such economic benefits are outstanding.

It is worth mentioning that the stock market opens up a new channel for the use of foreign funds in China.

According to Li Zhaowen [2621 5128 2429], a researcher at the Shenzhen General Development Academy, "China now has two main routes for attracting foreign funds: loans and foreign-invested enterprises. There are now trillions of U.S. dollars worth of hot money circulating around the world, and many of the owners of these funds lack either the knowledge or the desire to run a business. The stock market is precisely the instrument to absorb these funds." It is reported that there are many foreigners who take huge amounts of funds into Shenzhen to invest in stock, but because there is not yet any concrete method by which foreigners can invest in stock, most of them go through friends and acquaintances in China to buy and sell stock in Shenzhen. The Shenzhen Municipal Government is now drafting regulations and procedures to govern the buying and selling of stock in Shenzhen by foreign investors. It is reported that the basic procedure will involve foreigners investing in Shenzhen stock via funds.

#### How shall shortcomings be dealt with?

The Shenzhen stock market has attracted close scrutiny ever since it was established. Especially since the "stock craze" began last year, many people have raised all sorts of doubts:

- 1) Will people use large amounts of funds under their control to manipulate stock prices, doing great damage to small investors in the process?
- 2) Will officials and businessmen collude and use inside information to make huge profits?
- 3) There are great risks associated with buying and selling stocks. Some people become rich while others hang themselves or throw themselves from high buildings. If this happened in China, how would we deal with it?
- 4) Buying and selling stock will inevitably arouse a desire to speculate. Could this have a corrosive effect upon efforts to build up our spiritual civilization?
- 5) Stock trading is a classical example of "to each according to his capital." Is this compatible with the distribution principles of China's socialist system?

It would be difficult at this time to give a complete answer to these acute observations. The Shenzhen Municipal Government has been working for the last few years to strengthen the positive aspects of the new policy and eliminate the negative ones; various laws and regulations have been formulated with some success. A young economist said, "Stocks do not belong solely to capitalism. We can use them as we develop the socialist planned commodity economy, and we can limit their negative aspects as we proceed." This may represent the objective that many people are hoping to achieve—study the issue at the same time that we experiment with it. Perhaps this is one of the more pragmatic and positive attitudes.

### Shanghai Securities Market Posts Record Transactions

OW0904025191 Beijing XINHUA in English  
0227 GMT 9 Apr 91

[Text] Shanghai, April 9 (XINHUA)—The securities market in China's leading industrial center of Shanghai is booming, with a transaction volume totalling a record 1.7 billion yuan in the first quarter of this year.

According to an official of the Shanghai securities market, the transaction volume last month reached about 900 million yuan, double the February figure.

The official disclosed that the first day of April saw the transaction volume climb to 120 million yuan, auguring well for this month.

Founded in December 1990, the Shanghai securities market is the first of its kind in the country.

It now trades in 33 types of securities, including six types of state bonds, 19 types of banking and enterprise bonds and eight types of shares.

Shanghai has 50 locations for securities exchange and more than one million residents participate in exchange activities.

### Urban Residents' Cash Income

HK2703105291 Beijing CEI Database in English  
27 Mar 91

[Text] Beijing (CEI)—Following is a list showing the cash income of urban residents in 1990 and that of 1989 on an average basis, released by CSICSC [China Statistics Information Consultancy Service Center]:

	(Unit: yuan)	
	(Yearly per capita income)	
	1990	1989
Real income	1522.79	1387.81
Income of living	1387.27	1260.67
Payment of employees in state or collectively-owned enterprises	1028.34	933.75
Bonus	185.92	193.62
Subsidies	148.35	132.20

### Urban Residents' Cash Expenditure

HK2703105091 Beijing CEI Database in English  
27 Mar 91

[Text] Beijing (CEI)—Following is a list showing the cash expenditure of urban residents in 1990 and that of 1989 on an average basis, released by CSICSC [China Statistics Information Consultancy Service Center]

	(Unit: Yuan)	
	(Yearly per capita expenditure)	
	1990	1989
Total	1278.89	1210.95
Expenditure on commodities	1150.80	1099.89
Food	693.77	695.96
Clothing	170.90	149.15
Daily Necessities	129.66	133.97
Stationery and recreation articles	68.25	70.05
Books and newspapers	11.15	10.59
Medicines	19.65	15.98
Fuel	19.98	23.21
Housing	20.31	18.23
Others	17.13	18.75
Noncommodity Expenditure	128.09	111.06
Including:		
Rent	9.43	8.85
Water and Electricity	19.81	16.20
Gas	2.62	2.07
Transport	13.52	10.16
Postage	1.79	1.26
Medicinal care	6.02	4.92
Tuition	28.33	25.24
Nursery	5.23	5.19
Entertainment	4.53	3.62
Repairs and Service	24.8	21.78
Others	12.01	11.80

### INDUSTRY

#### GNP Boost Anticipated From High-Tech Districts

HK0503024791 Beijing CHINA DAILY in English  
5 Mar 91 p 1

[By staff reporter Zhang Lin]

[Text] High-tech research and development will top the agenda in the country's science programmes for next five years, as China embarks on a new drive to double its gross national product (GNP) before the end of this century, CHINA DAILY has learned.

Starting this year, China will appropriate 1.5 billion yuan (about \$288 million) annually to facilitate the development of the country's high-tech districts and has asked its financial banks to increase their loans to boost the development of these districts, a senior official from the State Science and Technology Commission said.

China has set up more than 36 such high-tech districts across the country since the State's "Torch Project" started three years ago.

Developing high technology has become a top priority in the nation's development strategy, Li Xu'e, vice-minister of the commission told a group of local officials in charge of science affairs yesterday at the opening ceremony of the "National Working Conference on Science and Technology Development."

The State budget includes a several hundred million yuan loan this year to help develop around 500 different high-tech and new technology products.

And efforts will be made by the commission to attract foreign loans both from governments and banks to back up the Torch Project, in which about 600 research institutions and universities throughout the country have been involved, Li Xu'e said.

The Torch Project is designed to speed up the transfer of new, advanced technology into production and promote economic growth based on competitive high-tech products. It is regarded as a critical step in China's plan to substantially increase the proportion of high-technology output in the economy by the end of the century and to increase the percentage of high technology export from the present low level to that of the middle income countries in the early 1990's.

China's high-tech industrial output value is targeted to reach 50 billion annually by 1995 and 120 billion yuan by the end of the century, Li Xu'e said.

The output value of China's high-technology industries in relation to the nation's GNP is still small at present, he said.

If China does not place great emphasis on high-tech, China's economic position in the world will probably decline even if it quadruples its total industrial and agricultural output value by the end of this century, he said.

During the Eighth Five-Year Plan period (1991-95), China will also deepen the reform in administration, and speed up the drafting of administrative laws and international academic exchanges, said Li.

China will also make efforts to bolster its "863 Project," another high-tech research programme in the field of biological engineering, information, automation, energy and new materials, he said.

By the next five years, technological breakthroughs should be made for those research projects which are scheduled to turn into production, he said.

Nearly 10,000 scientific and technological personnel are working on 900 projects in these five areas ranging from developing the intelligence computer, research new gene vaccine to producing robots.

Most of the research projects are going on smoothly and about 400 scientific results have been achieved, he said.

### Steady Increase Reported in Industrial Production

OW2204154891 Beijing XINHUA in English  
1504 GMT 22 Apr 91

[Text] Beijing, April 22 (XINHUA)—China registered a steady increase in industrial production and its domestic market started to flourish in the first three months of this year, a spokesman for the State Statistical Bureau announced today.

Speaking at a press conference this morning, Zhang Zhongji said China has maintained the high growth rate since late last year, adding that the country has produced 514.2 billion yuan in industrial output value in the last three months, up by 13.7 over the same period last year.

In the industrial production, Zhang said, the growth in the state-owned enterprises accelerated, climbing 9.6 percent. The increased output value of these enterprises accounted for 48.3 percent of the total national growth volume, making up the backbone of China's industrial growth.

At present, the areas sown with summer grain crops remained the same as last year, and the crops are doing well. Meanwhile, China produced 7.48 million tons of meat in the first quarter of this year, up by 8.9 percent.

The spokesman said the demands for investment increased steadily in the first three months of this year, adding that the proportion of investment in the energy and raw materials industries to the total industrial investment has gone up from the 77.9 percent to 79.2 percent.

Since late last year, the domestic consumption market showed a quick recovery and the retail sales volume for commodities rose to 228.7 billion yuan, up by 13 percent over the same period last year.

According to statistics from the General Administration of Customs, China exported 13.39 billion U.S. dollars-worth of products in the first quarter, up 24.1 percent over the same period last year. Meanwhile, the country imported 11.14 billion U.S. dollars-worth of products, up 11.7 percent.

According to the spokesman, the imports of some high-class consumer goods, such as color TV sets and cassette recorders, declined while imports of means of production increased.

Zhang said another indicator of the country's overall economic growth is that China has expanded its government revenue and kept its financial situation steady. During the three-month period, China also narrowed the gap between bank savings and loans.

At present, the spokesman commented, the macroscopic economic environment in China is relatively stable. "If we can maintain control over the total credits volume, we can generate steady growth in the national economy this year," he said.

Despite the growth, Zhang said, China has not improved its poor economic performance in enterprises. The

increased stockpiles of products and overspending on costs have resulted in deficits for many industrial enterprises.

Meanwhile, many peasants are still waiting to sell their surplus grain. In addition, prices for the retail sales have been rising in some medium and large cities.

Zhang said the large amount of loans accumulated in 1990 has not been absorbed while the demands for expanding capital investment are growing higher. "These factors can lead to economic instability in China," the spokesman warned.

### Increase in 1990 Means of Production Sales

*HK0103105191 Beijing CEI Database in English  
1 Mar 91*

[Text] Beijing (CEI)—Statistics released by the State Statistical Bureau on February 22 showed that the annual sales of means of production in China reached 238.2 billion yuan in 1990, up 1.7 percent from 1989.

In 1990, 34.97 million tons of rolled steel were sold, up 3.8 percent. Other capital goods sold included: coal, 260 million tons, up 3.5 percent, timber, 19.78 million cubic meters, down 10.2 percent, cement, 27.56 million tons, down 10.7 percent, motor vehicles, 556,000 units, up 0.4 percent and machinery and electric equipment, 50.4 billion yuan worth, up 4.6 percent.

### Shanghai Industrial Output Tops 106 Billion Yuan

*OW0504113591 Shanghai JIEFANG RIBAO in Chinese  
27 Mar 91 p 5*

[Excerpts] According to statistics recently published by the municipal statistics bureau, the 1990 municipal total industrial output topped 105.897 billion yuan (calculated in terms of the 1980 constant prices and excluding enterprises at or below village level; same hereinafter), an increase of 3.7 percent over 1989. Of that, the

combined total of the 100 enterprises with the highest output accounted for 40.195 billion yuan, up 7 percent over 1989. This figure represents 38 percent of the municipal total industrial output, up 1.2 percent over 1989.

The statistics show that Shanghai Petrochemical Complex had the highest annual output value of 3.651 billion yuan, an increase of 4.4 percent over 1989. It has topped the list for six consecutive years since 1985. Shanghai Baoshan Iron and Steel Complex, which occupies the second spot for a second consecutive year, had an annual output value of 2.849 billion yuan, up 30.9 percent over 1989. [passage omitted]

Classified according to unified state standards, the 100 enterprises with the highest output could be broken down into 89 large enterprises, 10 medium-sized enterprises, and one small enterprise.

The statistics also indicate that the municipality continued to speed up the development of export-oriented economy in 1990; direct exports by the municipality's industries rose 10.5 percent to top 16.896 billion yuan last year, surpassing the municipality's industrial growth rate; exports accounted for 16 percent of the municipality's total industrial output, up 1 percent over the previous year. Direct exports by the municipality's top 100 exporters rose by 9.8 percent to 6.887 billion yuan, accounting for 40.8 percent of the municipality's total export.

In terms of where the top 100 exporters are distributed between light and heavy industries, light industrial enterprises, at 72 and with a combined export of 4.213 billion yuan, dominated the group. Their exports accounted for 61.2 percent of all exports by the 100 exporters. Although only 38 heavy industrial enterprises made the list, they occupied the top three spots in terms of export value.

Shanghai Baoshan Iron and Steel Complex did not even make the list of top 100 exporters in 1989, but chalked up an annual export of 160 million yuan in 1990 and surged to the 6th spot on the list.

#### Shanghai's top 10 enterprises in total industrial output value in 1990

Rank	Name of Enterprise	Size	(calculated in terms of 1980 constant prices)	
			(1980 constant prices)	(1990 constant prices)
1	Shanghai Petrochemical Complex	large	36.51	46.97
2	Shanghai Baoshan Iron and Steel Complex	medium	28.49	60.80
3	Shanghai Gaoqiao Petrochemical Corp.	large	18.53	28.57
4	Shanghai Steelworks No. 3	large	10.98	23.36
5	Shanghai Television Studio No. 1	large	10.65	11.23
6	Shanghai Cigarette Factory	large	9.76	19.87
7	Shanghai Steelworks No. 1	large	9.08	20.43
8	Shanghai City Nonferrous Metals Corp.	large	8.63	15.91
9	Shanghai Smeltery	large	8.58	19.26
10	Shanghai Steelworks No. 5	large	8.20	17.89

**Shanghai's top 10 exporters in 1990**

Rank	Name of Enterprise	(calculated in terms of 1980 constant prices)	
		Export Volume (100 million yuan)	
		[1980 constant prices]	[1990 constant prices]
1	Eastern Shanghai Shipyard	2.91	3.70
2	Shanghai Gaoqiao Petrochemical Corp.	2.28	3.38
3	Jiangnan Shipyard	2.09	3.70
4	Shanghai First Printing and Dyeing Mill	1.75	1.75
5	Shanghai Xinguang Underwear Dyeing and Weaving Factory	1.71	2.29
6	Shanghai Baoshan Iron and Steel Complex	1.60	3.62
7	Shanghai Printing and Dyeing Mill No. 2	1.60	2.21
8	Shanghai Shipyard	1.58	2.77
9	Shanghai Bicycle Factory No. 3	1.53	2.46
10	Shanghai Haixin Corp.	1.49	1.61

**Export Volume of Textiles in Feb Listed**

HK0204102291 Beijing CEI Database in English  
1 Apr 91

[Text] Beijing (CEI)—Following is a list showing the export volume of China's textiles in Feb. 1991, according to statistics released by the General Administration of Customs:

Item	Unit	Feb. 1991	Feb. 1990
Cotton	ton	10,789	6,543
Cotton yarn	ton	11,432	5,542
Artificial yarn	ton	500	2,288
Cotton cloth	10,000m [meters]	13,261	11,948
Polyester cotton fabric	10,000m	6,690	6,322
Rayon	10,000m	128	187
Synthetic fibercloth	10,000m	2,042	1,791
Pure silk and satin	10,000m	649	701
Wool fabric	10,000m	48	32

**Export of Chemicals, Machinery in February**

HK0204102691 Beijing CEI Database in English  
1 Apr 91

[Text] Beijing (CEI)—Following is a list showing China's export of chemicals and machinery in Feb. 1991, released by the General Administration of Customs:

Item	Unit	Feb 1991	Feb. 1990
Crude oil	ton	1,858,272	2,200,490
Refined oil	ton	226,624	375,083
Lithopone	ton	1,711	7,828

Medicine	10,000 USD [U.S.dollars]	4,371	3,758
Rubber tyre	pair	38,883	81,096
Tool	10,000 USD	2,160	1,822
Sewing machine	set	73,133	103,828
Industrial	set	12,941	5,573
Household	set	60,092	98,255
Textile machinery	10,000 USD	941	381
Food processing machinery	10,000 USD	87	129
Machine tool	set	44,358	42,499
Lathe	set	1,535	767
Grinder	set	332	120
Bearing	10,000 USD	608	789

**Output of Light Industry in February**

HK2103003991 Beijing CEI Database in English  
20 Mar 91

[Text] Beijing (CEI)—Following is a list of the output of China's light industry in February 1991, released by the State Statistical Bureau:

Item	Unit	2/91	2/90
Bicycle	10,000s	234.44	201.69
Sewing machine	10,000s	47.15	58.89
Watch	10,000s	523.60	455.80
Camera	10,000s	19.51	12.65
TV set	10,000s	195.99	193.27
Color TV	10,000s	83.10	58.12
Video recorder	10,000s	0.46	0.92

Item	Unit	2/91	2/90
Radio	10,000s	136.00	128.23
Tape recorder	10,000s	198.37	190.74
Washing machine	10,000s	56.25	47.62
Fan	10,000s	465.01	444.94
Refrigerator	10,000s	28.39	32.31
Sugar	10,000t	135.56	115.11
Salt	10,000t	56.10	45.20
Cigarette	10,000c	210.2	230.8
Beer	10,000t	37.55	30.23
Liquor	10,000t	35.86	38.43
Canned product	10,000t	5.87	8.79
Feed	10,000t	154.32	159.25
Machine-made paper and kraft	10,000t	78.79	71.55
of: Newsprint	10,000t	3.15	2.52
Anastatic printing paper	10,000t	4.06	3.97
Synthetic detergent	10,000t	10.17	10.29
Daily fine aluminum products	t	5884	4994
Plastic product	10,000t	24.04	22.94
Farming film	10,000t	3.93	4.21
Bulb	100mpc	1.88	1.69

Notes: m.m—million meter, c.m.—cubic meter, pc—piece, c—cases, t—tons, s—set

Large machine tool	S	149	154
Automobile	10,000	3.71	3.09
Truck	10,000	2.06	1.75
Tractor (over 20 H.P.)	10,000	0.48	0.27
Small tractor	10,000	9.27	6.06
Locomotive of:	S	46	38
Diesel	S	32	34
Steam	S	0	2
Electric	S	14	2
Passenger coach	S	114	131
Freight wagon	S	1337	1754
Internal combustion engine	10,000 KW	394.50	326.10
Fishing ship		4	3
Civil steel ship	10,000 T	3.46	1.44
Computer	S	8	5
Mini computer	S	2949	2352
Pocket calculator	10,000 S	104.12	38.08
Program-controlled switchboard	10,000 S	1.93	1.02
Film projector	10,000 S	0.09	0.10

Notes: T—ton, S—set, KW—kilowatt

Following is a list of the output volume of main chemical products in February 1991, released by the China State Statistical Bureau:

Item	Unit	2/91	2/90
Chemical fiber	10,000 T	13.73	12.81
Sulphuric acid	10,000 T	90.52	82.17
Dense nitric acid	10,000 T	2.24	2.25
Soda ash	10,000 T	31.35	23.73
Caustic soda	10,000 T	26.09	26.21
Ethylene	10,000 T	14.48	11.35
Calcium chloride	10,000 T	17.64	16.89
Pure benzene	10,000 T	6.11	4.88
Synthetic ammonia	10,000 T	170.12	168.76
Fertilizer	10,000 T	149.55	146.91
Nitrogen	10,000 T	118.49	118.60
Phosphorous	10,000 T	30.99	28.19
Potash	10,000 T	0.04	0.08

### February Production Statistics Released

HK2103134891 Beijing CEI Database in English 21 Mar 91

[Text] Beijing (CEI)—Following is a list of the output of China's major mechano-electronic products in February 1991, released by the State Statistical Bureau:

Item	Unit	2/91	2/90
Power equipment	10,000 KW	50.63	22.96
Alternating-current motor	10,000 KW	224.47	287.63
Industrial boiler	T	2145	3135
Metal cutting machine tool	10,000 S	0.80	0.78
Digital controlled tool	S	293	117
Precision machines tool	S	51	77

Item	Unit	2/91	2/90
Chemical pesticide	10,000 T	2.00	2.03
Paint	10,000 T	5.53	4.90
Dyestuff	10,000 T	1.50	0.93
Pharmaceuticals	10,000 T	1.48	1.12
Chinese patent medicines	10,000 T	1.74	1.50
Tyre	10,000	234.87	208.79
Synthetic rubber	10,000 T	2.84	2.39
Film	10,000 M	1200	1353
Color film	10,000 M	1200	1317
Plastics	10,000 T	21.11	14.41

Notes: M—Meters, T—Tons

Following is a list of the output volume of raw materials in February 1991, released by the China State Statistical Bureau:

Item	Unit	2/91	2/90
Iron ore	10,000 T	1064.30	1111.00
Pig iron	10,000 T	493.20	436.40
Steel	10,000 T	521.70	491.80
Rolled steel	10,000 T	399.80	387.93
Ferro alloys	10,000 T	14.67	20.62
Coke	10,000 T	407.83	383.12
Ten non-ferrous metals	10,000 T	18.57	16.62
Copper	10,000 T	4.10	4.23
Aluminium	10,000 T	7.24	6.40
Copper products	10,000 T	3.15	2.85
Aluminium products	10,000 T	2.58	1.97
Alumina	10,000 T	10.67	9.55
Sulphuric-iron ore	10,000 T	69.53	68.75
Phosphorus ore	10,000 T	107.67	121.16
Timber	10,000 C.M.	345	438
Artificial board	10,000 C.M.	13.76	11.37
Cement	10,000 T	1325.90	1033.90

Flat Glass	10,000 C	645.72	644.31
Note: M.M—Million Meters, C.M.—Cubic Meters, C—Cases			

### Henan Industrial Production Shows Steady Growth

HK0904140691 Zhengzhou Henan Provincial Service in Mandarin 2300 GMT 5 Apr 91

[Text] This year, thanks to market recovery, our provincial industrial production's external conditions have noticeably improved with the result that our provincial industrial production has shown a steady growth based on the rapid growth gained at the end of last year.

In the first quarter of this year, our province's total industrial output value reached 19.954 billion yuan, a 14.6-percent increase over the corresponding period last year. [words indistinct]

Nonetheless, our raw coal, crude oil, and steel output dropped. [words indistinct]

At present, our province still has some overstocked products. Some of our enterprises are still suffering heavy losses. Unbalanced production development and industrial growth can still be seen in some areas.

In view of this situation, various prefectures and cities, as well as departments concerned, should make continued efforts to improve enterprise product marketing, increase production of quality, inexpensive, and readily marketable products; and concentrate efforts on increasing enterprises' economic results to put our provincial industrial and economic operations in a benign cycle.

### Hebei Incorporates New Textile Firm

OW1604193591 Beijing XINHUA in English 1400 GMT 16 Apr 91

[Text] Shijiazhuang, April 16 (XINHUA)—The Shijiazhuang Textile Corporation was incorporated last Saturday in Shijiazhuang, the capital of Hebei Province and one of China's key textile industrial bases.

The corporation, which has fixed assets of over 1.5 million, comprises 47 state-owned, collective and cooperative enterprises, which employ over 96,000 workers in total.

In addition, the corporation has 720,000 spindles, 18,000 looms, and more than 5,300 open-end spinners. Its annual production capacity amounts to over 17,000 tons of chemical fiber, 380 million meters of printed and dyed fabric, and eight million pieces of clothing.

The corporation exports products to more than 50 countries and regions worldwide.

**Xinjiang Telecommunications Improvements**

*OW1804113991 Beijing XINHUA in English  
0939 GMT 18 Apr 91*

[Text] Urumqi, April 18 (XINHUA)—The newly laid automatic telecommunications system has further shortened the distance between Urumqi and the Chinese interior.

The capital city of the Xinjiang Uygur Autonomous Region used to have poor telecommunications connections with the interior, and before 1949 there was merely one telephone line between Urumqi and Lanzhou, the capital of Gansu Province.

After 1949, telecommunications have developed rapidly. In the past five years, Urumqi achieved rapid development in the field.

At present, there are 50,000 telephones in the city, and the number of long-distance lines in Urumqi has increased to over 100, up from 45 in 1985. Meanwhile, auto-switchboards have replaced manual ones.

Moreover, satellite and optical-fiber telecommunications have made it easier for local people to communicate with rest of the country and the world.

**Tianjin Industrial Project Construction Continues**

*OW0504211391 Beijing XINHUA in English  
1521 GMT 5 Apr 91*

[Text] Tianjin, April 5 (XINHUA)—North China's port city of Tianjin is pushing ahead with a seamless steel tube plant, the city's largest-ever industrial project.

The project, involving a cost of about 70 million U.S. dollars, will introduce equipment from Germany, Italy and the United States.

It has a designed production capacity of 600,000 tons of fine steel and 500,000 tons of seamless steel, to be used in the petroleum and mineral-extraction industries.

**Tianjin To Expand Telecommunications in 1991-95**

*OW0804031091 Beijing XINHUA in English  
0256 GMT 8 Apr 91*

[Text] Tianjin, April 8 (XINHUA)—Tianjin, a major port city in north China, is boosting telecommunications in the 1991-95 period.

According to the municipal posts and telecommunications administration, the city will install urban telephone exchanges with a total capacity of between 250,000 and 300,000 lines, long-distance telephone exchanges capable of handling 7,000 lines and 5,000 sets of mobile telephones during this period.

An administration official said the number of telephones in Tianjin will go up from the present 3.62 sets per 100 people to eight per 100 in 1995.

The past five years were a peak period for telephone improvement in the city, according to the official.

The number of telephone exchanges increased by 132,200 lines during this period, an increase of 140 percent over the 1981-85 period, and that of long-distance telephone exchanges went up by 1,500 lines and long-distance business circuits up by 2,100 channels.

As a result of importing advanced technology, 70 percent of the city's telephone facilities are program-controlled systems.

**Shenzhen Electrical Production Up 41 Percent**

*OW0804111491 Beijing XINHUA in English  
1053 GMT 8 Apr 91*

[Text] Shenzhen, April 8 (XINHUA)—Shenzhen City, a special economic zone in Guangdong Province, south China, has produced 11.6 million kwh of electricity a day since the beginning of March, a 41 percent increase over the same period of last year.

The increased productivity has relieved the limited supply of electrical power in the city. There is now enough electricity to meet the needs of the zone's production and people's daily life.

The rapid development of industrial production in Shenzhen had strained the electrical supply system, requiring the city government to limit the electricity-use time of some industrial firms. In addition, the government had to step up construction of a number of small power plants and gain support from the provincial electric supply network.

The newly built small electricity generating plants have a total generating capacity of 220,000 kw a year, accounting for one-fifth of the city's total production capacity.

Officials with the city's energy office predicted that there would be more electricity consumed during the summer, when more air conditioners would be used. They said that more electric generators would be put into operation at that time to accommodate the increased demand.

**SMALL-SCALE ENTERPRISES****Shanghai Suburban Industries Encounter Problems**

*91CE0358A Shanghai CAIJING YANJIU [THE STUDY OF FINANCE AND ECONOMICS] in Chinese No 1, 3 Jan 91 pp 16-19*

[Article by Sang Jingshan (2718 7234 1472): "Problems That Shanghai's Suburban Township Industries Must Solve To Extricate Themselves From Their Current Predicament"]

[Text] During the first year of improvement and rectification in 1989, larger investments in preceding years left

Shanghai's suburban township industries with a 20 percent growth rate and an output value of 20.9 billion yuan, or 18.2 percent of Shanghai's GVIO [Gross Value of Industrial Output]. While Shanghai's township industries were able to achieve certain successes in structural adjustment through the joint efforts of vast numbers of suburban cadres, staff members, and workers during the second year of improvement and rectification in 1990, they were still faced with quite serious circumstances due to the steady exposure of problems that had accumulated over the past decade of overdevelopment. In the interests of helping Shanghai's suburban township industries extricate themselves from their predicament as quickly as possible, so that they can achieve sustained, steady, and coordinated growth during the Eighth Five-Year Plan and over the coming decade, this article will emphasize a discussion of certain superficial views on the current difficulties that Shanghai's suburban township industries are encountering, and appropriate countermeasures.

### I. On Adjusting Product Mix

One of the problems that Shanghai's suburban township industries encountered during the second year of improvement and rectification in 1990 was soft markets, poor sales, and glaring product mix conflicts, which left them with a very difficult adjustment task. In the first three-quarters of 1990, Shanghai's township and rural industrial output value reached 16.66 billion yuan, or 7.43 percent more than in the first three-quarters of 1989. Their production during these nine months was still fluctuating, very unstable, and in a process of bottoming out. The following major product mix conflicts were reported: 1) As a very small percentage of Shanghai's suburban township industries were manufacturing industries or raw and semifinished materials industries that used local resources as raw materials, which left them acting mainly as accessory industries cooperating with urban industry, Shanghai's urban and rural industries were producing similar products, which was an impediment to product sales and an obstacle to enterprise production when markets fluctuated. For instance, of the 10 large key industries that accounted for 80 percent of township industry output value, production increased for most products in the textile, tailoring, chemical, papermaking, and cultural-educational-sporting goods industries, while declining for some products in the engineering, metal products, electrical machinery and equipment manufacturing, plastics, and food and drink industries; 2) The following product mix conflicts were reported by enterprises: (a) A sizable number of new enterprises had poor output, and some had such poor output that they found themselves in predicaments as soon as they were set up; (b) A large number of old enterprises were so backward that they experienced large drops in production. A survey in Jiading County found that 693, or 52.5 percent of all old enterprises, experienced drops in production amounting to 284 million yuan in the first half of 1990; 3) Structural conflicts were reported in the field of circulation, with

the following two types of production and marketing channels forming a sharp contrast: (a) Production and marketing channels mainly for manufacturing in cooperation with urban enterprises: While these production and marketing channels depended mostly on urban industry and commerce, were directly or indirectly listed in state plans, and enabled township enterprises to focus on production without having to worry about sales, they left township enterprises at an obvious loss when urban industrial and commercial production and marketing channels ran into difficulties; (b) Production and marketing channels for certain enterprises that relied completely on market regulation: When encountering similar market slumps, their production expanded normally. For instance, the Xiafei Cosmetics Factory in Chuansha Township was completely market-oriented as far as its necessary production raw materials and product sales. It has doubled its output value five years in a row since it was established, increased it sharply again in the midst of 1990's sharp competition in the cosmetics market to the point where it is expected to top 100 million yuan, and has become one of Shanghai's few factories whose suburban township industry output value has topped 100 million yuan.

Faced with the current serious difficulty of glaring product mix conflicts, how can Shanghai's suburban township industries extricate themselves from their predicament of stagnant product sales, overstocking, and enterprise production obstacles? The way out is to emphasize market-oriented adjustments.

1. Suburban cadres at all levels, particularly those on the township industry front, must firmly establish market, competition, and risk mentalities. All of Shanghai's township industries have relied mainly on urban industrial, foreign trade, and commercial marketing channels, which has created a dependent mentality and left large numbers of cadres in an obviously passive position for many years when confronted with sharp market competition. Therefore, cadres must clearly realize that township industries are now at a crucial turning point, and that every enterprises' products will have to pass the test of the market. Cadres must undergo an ideological change, in which they become less dependent and complaining, more market- and competition-oriented, and better at enabling the market quality of their own products to be judged at first glance.

2. While taking active steps to open up markets, Shanghai's township industries must pay a great deal of attention to adjusting product mix and developing new products. As products are what tie production to markets, adjustment of product mix must be aimed at opening up markets. Becoming more market-oriented and opening up markets were the major steps taken previously by all enterprises that manufacture in cooperation with urban enterprises, in order to become "thriving successes" instead of "inept failures," while industry was generally experiencing a recession and difficulty in surviving. For instance, the manufacturing jobs of Shanghai's Chuansha Printing and Dyeing Machinery Plant dropped in

value from 16 million yuan in 1989 to 3 million yuan in 1990. Faced with this problem, cadres, staff members, and workers throughout the plant took the initiative to adjust their product mix and find jobs on the market. These efforts not only helped them establish business relations with 15 other Shanghai printing and dyeing plants, but also took them to Guangzhou and Shenzhen to get job orders and, by the end of July 1990, had brought them 14 million yuan in manufacturing business, helped them establish a number of new business relationships, and been instrumental in breaking their products into the Hong Kong market.

3. Along with opening up markets and adjusting product mix, Shanghai's township industries must take vigorous renewal steps, score successes with new varieties and high quality, and conscientiously change the "customary" and "ageing" state that their products have been in for decades. Township industries in Songjiang County have developed 47 new products and eliminated 24 old ones since the beginning of 1990. Township industries in Songjiang County's Gusong Township have successfully developed three new products, such as industrial chains and metal screens, since 1989, and achieved an output value of 5 million yuan in 1990. However, the poor technical force of current suburban township industries is making it difficult for them to develop new products. The way out of this difficulty is for them to draw support from the rich technical advantages of the industrial city of Shanghai, by "borrowing its chickens to lay their eggs," which not only is possible, but also has successful experience by various counties available for reference.

4. Shanghai's township industries must take vigorous steps to enhance their product marketing and establish sales networks. Many years of experience have proved that an enterprises' prosperity certainly does not depend on the size of its production capability, but rather mainly on whether it has markets, i.e., the size of the market share that its products have cornered. If an enterprise has sales markets and job orders on hand, it does not have to worry about not being able to increase production. Thus, regardless of whether they are joint ventures that manufacture in cooperation with urban enterprises or are subject to market regulation, all enterprises must take conscientious steps to enhance their supply and marketing work, set up supply and marketing teams that are competitive and able to display a "4,000 spirit," and have a policy that encourages and emphasizes buying and selling, and safeguards along with encouragement, in order to arouse the initiative of the masses of buyers and sellers.

## II. On the Decline in Economic Efficiency

Another glaring problem that is now being encountered by Shanghai's suburban township industries is a sharp decline in economic efficiency and a sharp increase in the number of enterprises that are sustaining losses. Exerting great efforts to reverse the passive state of declining economic efficiency has become a very pressing task. Comparing the first three quarters of 1990

to the first three quarters of 1989, township and village industries earned 1.508 billion yuan in profits, or 15.4 percent less, had 2,141 enterprises that sustained losses, or 48.01 percent more, and sustained losses of 125 million yuan, or 22.74 percent more. The sharp decline in township industry efficiency had many causes, which were an overall reflection of subjective, objective, and nonconstant factors. The major factors were as follows: 1) The market slump left a considerable number of enterprises operating under capacity, and some with starting and stopping of work, labor surpluses, considerably increasing expenses, and rising costs; 2) Obstacles to the three operating funds, i.e., finished products, delivered commodities, and due goods payments, left enterprises with more loans, increased interest payments, and higher costs; 3) Continued increases in the prices of some subsidiary raw materials were hard for enterprises to absorb and increased their costs.

In order to rapidly restore their economic efficiency in the midst of the currently still grim situation, township industries are going to have to take conscientious steps to establish a more normal operating order. Economic efficiency and a normal operating order are mutually complementary and indispensable to each other. Emphasizing either to the neglect of the other would make it impossible to achieve the desired results. Thus, the following steps must be taken:

1. Suburban cadres at all levels, and enterprise managers in particular, must give the proper emphasis to enhancing enterprise management, by taking conscientious steps to improve enterprise management, doing their utmost to sharpen skills within enterprises, and stopping the decline in efficiency, in order to truly achieve better efficiency through improved management. Suburban township enterprises have made considerable management advances with the help of urban industry in recent years, and a number of enterprises with advanced management have emerged. While over 10 enterprises have become grade-2 national enterprises and almost 100 have become advanced municipal enterprises, township enterprises remain generally rather poorly managed, and a considerable number of them are still far off the track as to their basic management. Thus, the key to enhancing enterprise management is to make cadres more management-oriented, by shifting the major focus of cadres and managers from their past overemphasis on development and lateral relations to the proper emphasis on management.

2. Faced with the current recession being experienced by a considerable number of enterprises, the following countermeasures must be taken to combine "development" with "austerity," and enable a number of enterprises to free themselves as quickly as possible from their passive state of "refusing to shut down and preserving their iron rice bowls:" 1) Enterprises must become more market-oriented, develop actively, and make new improvements; 2) Enterprises that are experiencing production slumps must make choices based on market demand, and a number of them must be firmly shut

down, merged, and converted; 3) The austerity policy must be firmly adhered to, and conscientious steps must be taken to mobilize some manpower from enterprises, which have labor surpluses, are overstaffed, and are finding it hard to shift manpower to other enterprises, to return to the rural frontline to work in agriculture and the livestock industry; 4) All possible expenses that can should be firmly cut back to reduce expenditures and lower costs; 5) Conscientious and effective steps must be taken to make up deficits, increase surpluses, and reduce losses to the minimum.

3. While township enterprises are a part of our system of public ownership and a key component of our national economy, whose cooperation with or supplementation of state-owned enterprises should be on an equal basis, quite a few urban enterprises in recent years have been keeping township and collective enterprise funds without compensation for long periods of time for their own interests, which has encroached unduly on collective interests. In order to reverse this situation, concerned national departments must take conscientious steps and absolutely not simply issue general appeals, make overall plans for rural and urban areas and absolutely not emphasize cities to the neglect of the countryside, and treat state-owned and collective enterprises equally and absolutely not favor state-owned enterprises. Only in this way can the legal rights and interests of township enterprises be ensured. Thus, the following steps should be taken: 1) economic legislation should be drawn up and standardized regulations should be established to ensure normal economic operations; 2) a strict accounts settlement system should be reestablished with the supervision of the credit sector, and urban commercial, foreign trade, and industrial enterprises must reestablish good accounts settlement reputations.

4. Invigoration of enterprises as cells of the national economy should be made an important part of macroeconomic regulation and control. The priorities should be as follows: 1) the current enterprise capacity to absorb price increases for power and raw and supplementary materials, including certain increased charges, must be considered; 2) while prices of raw and supplementary materials are rising, product prices must be generally (not completely) adjusted, in order to enable enterprises to maintain a fairly stable output value to profit margin, without which it would be hard for them to survive; 3) lateral demands on enterprises by all sectors must also be limited, and burdens must absolutely not be shifted onto enterprises because of national fiscal difficulties; 4) staff member and worker wage increases must be suited to and absolutely not allowed to exceed production growth.

### III. On Excessive Enterprise Burdens

Another glaring problem that is now being encountered by Shanghai's suburban township enterprises is too heavy burdens and widely overloaded operations.

Shanghai's suburban township and village industrial enterprises have earned 6.722 billion yuan in profits in

the last three years. Excluding profits shared with workers by joint ventures, all pretax expenditures, income taxes, power, transportation, and regulatory funds, and profits turned over to townships and villages, enterprises have actually kept only 896 million yuan, or 13.3% of these profits. This percentage was 10.72 percent for 1987, 14.4 percent for 1988, and 14.1 percent for 1989, and average annual retained profits per enterprise were 18,700 yuan in 1987, 29,700 yuan in 1988, and 25,500 yuan in 1989. As to the causes of township enterprises' too heavy burdens and overloaded operations, in addition to the former 20 percent proportional tax having been changed in 1984 to the same 8-grade superprogressive tax system used for state-owned enterprises, and the increases in power and transportation funds, regulatory funds, and certain other new tax categories in the last 2 years, the following other factors have been reported: 1) The excessive pretax expenditures for industrial subsidies to agricultural and sideline production funds are more than enterprises can bear; 2) Enterprises have been allowed to pay certain expenses that should have been included in production costs out of aftertax profits; 3) Too many township enterprise workers have been released from production to take on other duties, and administrative and operating expenses have increased year after year, which have put too heavy demands on enterprises; 4) Certain municipal and county departments have been collecting fees under a multitude of names. This has been caused by the extent of rural prosperity being exaggerated sometimes by public opinion in recent years, which has concealed the still weak economic conditions in the township enterprise growth process, and overstimulated the appetites of certain departments. Thus, fiscal difficulties are shifted onto township enterprises, and the situation of enterprises paying up every time the higher levels open their mouths has become more endemic year after year. In the collective economy, the distribution of township enterprise realized profits has long been out of order. Instead of first consideration being given to ensuring enterprise needs to maintain simple reproduction, the government's "needs," i.e., administrative expenses, are often met first, there is unrealistic so-called acting in the interests of the masses and, after nonproduction expenses are paid, whatever is left over is retained by enterprises. In this manner, enterprises rely mainly on bank loans for their production funds and, once credit is tightened, find themselves in predicaments. Thus, the problem boils down to how to appropriately lighten enterprise burdens while raising and using well industrial subsidies to agriculture, in order to contribute to the coordinated growth of industry, agriculture, and commerce, and better stabilize township enterprises as rural economic pillars. This could be accomplished through the following countermeasures:

1. It is suggested that the current 8-grade superprogressive tax system for township enterprises be improved. The situation in Shanghai's suburbs shows that factors, such as the state's inability to increase its investment in

agriculture, the burden of accumulating funds for agricultural and rural modernization actually falling on the shoulders of township enterprises, and township enterprises still shouldering the burden of production subsidies for supplying cities with nonstaple foods, make it irrational to apply the same 8-grade superprogressive tax system used for state-owned enterprises to township enterprises. Thus, based on strengthening agriculture, the current township enterprise income tax system must be improved when enhancing macroeconomic regulation and control, the tax burden must be appropriately reduced, other tax categories had best be stabilized, and new ones should not be put into effect. Bank loan interest rates should be appropriately lowered again, in order to support township enterprise growth.

2. Certain preferential tax policies, which have been in effect for township enterprises in recent years, must be stabilized and gradually improved. Moreover, consideration should be given to the fact that current township enterprise tax calculation wage expenditure criteria are too low and should be appropriately increased, particularly for enterprises with good economic efficiency. At the same time, staff member and worker wages should be vigorously linked to fluctuations in enterprise economic efficiency. Enterprises that produce foreign trade exports must be given a certain amount of overtime pay support. However, too rapid increases in township enterprise staff member and worker wages must also be appropriately curbed, and a certain percentage, i.e., a "lid" that must not be exceeded, must be set for the part of enterprise aftertax net profits used for supertax calculation wage distribution, for enterprises that do not link wages to profits. Moreover, the enterprise rate of depreciation should be raised appropriately, and enterprises should be allowed to collect overhaul funds, in order to support their growth.

3. Enterprise profit distribution must be adjusted so that enterprises can keep more profits each year. As to enterprise profit distribution, the current reversed method of first considering the needs of all other parties, and then giving whatever is left over to enterprises, must be changed, i.e., enterprise needs for carrying on simple production must be ensured first. As far as actual current township enterprise burdens, it is suggested that during the period of improvement and rectification, part of the deducted "industrial subsidization for agriculture" funds be returned to enterprises, planned for by townships, and used mainly for adjusting product mix, upgrading technology, and supplementing enterprise operating funds. The stipulation that enterprises turn over 10 percent of their aftertax net profits to townships and villages to make up social expenditure shortages, should be rescinded in light of the fact that township revenues have generally increased considerably since the guaranteed payment system went into effect for counties and townships. Township and village administrators may not take away any of the profits that enterprises turn over to township or village industrial companies (cooperative economic organizations) for expanded reproduction.

4. The relationship between government administration and enterprise management must be gradually rationalized, and regulations on township and town expenditures and village finances must be rigorously enforced. Based on the current township and town financial systems that have already been widely established, budgetary and final accounting regulations for township and town finances must be improved, by strictly keeping all township and town expenditures, such as education, sanitation, agricultural and sideline product subsidies, and social and administrative costs, within, and not allowing them to exceed, all fiscally stipulated income limits. Moreover, internal auditing must be carried out well, and townships or villages that exceed stipulated limits and concoct various pretexts to transfer funds from enterprises or cooperative economic organizations, must be punished severely by higher level departments as soon as they are discovered. Townships and villages must also streamline their administrative structures and cut back their staffs sharply, in order to reduce their administrative costs. No municipal-level department may require grass-roots units under any pretext to add to their administrative structures or staffs without approval. All township- and village-run social welfare services must adhere to the principle of acting according to their capabilities. All municipal departments must conscientiously implement State Council directives on lightening peasant burdens, and lower levels must not be made to pay the bills for higher levels without the approval of municipal governments.

#### IV. On Decreased Investment and Poor Stamina

While the deepening of improvement and rectification has reduced and effectively controlled the former excessive investment in Shanghai's township industries, the opposite problem has now occurred, in which investment initiative is generally lacking, input has decreased, and stamina is poor, which should arouse serious attention. The dispersion of a number of products to suburbia in the last three years by sectors, such as urban industry and foreign trade, has caused too much investment in suburban township industries. From 1986 to 1989, township industry fixed assets more than doubled in value, for a net increase of 4.969 billion yuan and an average increase of 1.656 billion yuan a year. But the state of fixed assets investment for the first half of 1990, is that many counties have reported that they were unable to use up their 1990 fixed assets investment quotas, and that they started very few new projects, and then only a few small ones, and only a handful of large key projects.

While some of the decreased investment in Shanghai's township industries was rational because it was the inevitable result of improvement, rectification, and cutting back the scale of investment, the lack of investment initiative, decreased input, and poor stamina should also certainly arouse the proper attention. Thus, corresponding steps should be taken to resolve the following issues:

1. The investment must be mentality unified. How should investment in township industries be handled? Developing circumstances over the past several years have also proved that there can be no output without input. In order to enable suburban township industries to maintain a fixed growth rate, the conclusion that must be reached is that they must maintain a fixed amount of annual investment. While it should be fully acknowledged that township industry investment has been too large over the past 11 years, the last few years in particular, and that some townships and villages have exceeded their capabilities, it must also be understood that township industries must maintain a fixed amount of annual investment under the macroeconomic guidance of the state. Otherwise, when input "dips," output is bound to "go into neutral gear," or "slip." It will be necessary to ensure that suburban township industries maintain an annual growth rate of 10 percent during the Eighth Five-Year Plan or even longer, not only for suburban and rural economic and social development, but also for urban industrial and foreign trade export growth, and to increase state revenue. With these objectives in mind, if suburban township industries can maintain a 10 percent average annual growth rate during the Eighth Five-Year Plan based on 1990's estimated output value, they can achieve an output value of 36.2 billion yuan by 1995, for a net increase of 2.74 billion yuan a year. If, according to the same direct ratio of input to output, they can maintain a 10 percent annual growth rate during the Eighth Five-Year Plan based on the estimated fixed assets value in 1990, they can achieve a fixed assets value of 16.9 billion yuan by 1995, for an average increase of 1.28 billion yuan a year. However, considering prices and other unpredictable factors, township industries must maintain an annual fixed assets investment of 1.5 billion yuan to achieve a 10 percent growth rate in annual output value.

2. The investment initiative of enterprises and their managers must be fully aroused. Under the current economic climate for the development of township enterprises, neither enterprises nor their managers are generally showing very much investment initiative. What are the causes of this? The circumstances show that some units have encountered many difficulties in the midst of improvement, rectification, and market fluctuations because they incurred debts to start a number of projects. As these units are now heavily in debt, in a tight spot, and will need to work hard for a period of time to surmount these difficulties, they are unable to make further investments. In even more cases, the enormous changes in the objective investment climate have certain factory directors talking as follows: In starting up a new enterprise, if all fixed assets are borrowed from banks, this is a bank-run enterprise but, if one's own funds are invested, it would be safer to put them into bank savings and draw interest. As developing, investing in, and setting up new enterprises is much harder than it was a few years ago, people fear the risks. Thus, the following policy adjustments will be necessary to reverse the current lack of investment initiative: 1) New township

enterprises, including technological upgrading projects, must continue to be given tax preferences. New enterprises must be given a grace period of tax reduction or exemption when they first start to earn profits, and technological upgrading projects must be allowed to repay loans from pretax increased profits; 2) Bank loan interest rates must be further lowered to an appropriate degree; 3) Managers must be encouraged to invest, contributors to new development must be rewarded and, even more importantly, encouragements must be accompanied by safeguards to stimulate development.

3. Active steps must be taken to raise investment funds. Where do investment funds come from? As township enterprises have long kept very little of the profits they earned and basically been stripped bare year after year, they have depended on bank loans for development funds. As the current economic climate makes complete reliance on credit funds not only impossible, but also undesirable from a long-range perspective, the former reliance on mostly credit certainly must be gradually changed to reliance on self-accumulation, by increasing enterprise retained profits and collective accumulation. This is one major aspect of funding sources. At the same time, credit funds must be utilized as much as possible, and debts must be incurred boldly and skillfully. The facts show that with no investment from either the state or members of society, suburban township enterprise operations have relied mainly on incurred debts (loans), certain supportive state policies, and the accumulative labor of staff members and workers, to gradually develop and expand over the last 11 years. Future township enterprise growth must rely on a combination of self-accumulation and credit for funding sources, with the self-accumulation percentage rising steadily.

4. Investment options must be chosen correctly. How well investment options are chosen in the current economic climate, will affect the stability of future township industry growth. Suburban township industry investments over the past 11 years have been oriented as follows: 1) They have been focused mainly on developing new projects and setting up new enterprises; 2) Certain enterprises that produce marketable products for domestic and foreign markets, have used them to expand their production scopes; 3) They have been used for certain technological upgrading projects. While this emphasis on a number of new projects has enabled suburban township industries to grow to a considerable size and given them a fairly good base, the current economic climate for developing township enterprises means that suburban township industries certainly must shift their future investment orientation from its past emphasis on setting up new enterprises, to upgrading technology in the following ways: 1) investment priority must be given to further upgrading existing enterprises; and 2) more money must be invested in enterprises that produce marketable products. 3. A number of new enterprises that produce technology-intensive, knowledge-intensive, and export products, including the "three types of foreign trade enterprises," must be

chosen and set up to enhance enterprise growth stamina. Along with clarifying investment orientation, every project must be chosen conscientiously, demonstrated to be feasible, and started only after at least 70-80 percent of its investment is in hand.

## CONSTRUCTION

### Deng, Jiang Give Green Light for Housing Reform

91CE0306A Hong Kong KUANG CHIAO CHING [WIDE ANGLE] in Chinese No 220, 16 Jan 91 pp 24-28

[Article by Qu Jingzhi (2575 2417 5347): "Deng Xiaoping, Jiang Zemin Give Green Light for Housing Reform"]

[Text] *It's Time To Buy a House in China!*

Housing is an increasingly serious problem in any major city in China.

It has been over 10 years since Deng Xiaoping drew up an overall plan for housing reform in 1978, beginning with the sale of houses.

Housing reform peaked from 1987 to the first half of 1988. Over 7 million square meters of newly built housing were sold across the nation in 1988 alone, including 1.98 million square meters in Guangdong, making that province the national leader. In the same period, 6.3 million square meters of existing housing were sold, including 2 million in Liaoning, the most in the nation. By September 1988, however, the bottom fell out of housing reform as a frightening inflation took off. People began to take a wait-and-see attitude.

Since 1989 people at home and abroad have been saying that housing reform has stalled in China.

Really? Not so. Since the beginning of 1991, both housing reform and the real estate industry have gained new momentum.

In Shanghai, Shekou, Guangzhou, and a number of townships in the Zhu Jiang Delta, speculation in real estate has emerged since early 1991. Reportedly the prices of some residential properties have soared to HK\$500 per square foot.

Lin Hanxiong [2651 3352 7160], who heads the housing reform leading group in the State Council, said that housing reform is unstoppable. Why so? Because people at the top and at the bottom all want housing reform to continue.

### Why People at the Top Want Housing Reform

The free allocation of housing and the low-rent system, long regarded as the embodiment of socialist superiority, have led to more and more government revenues going toward housing subsidies, increasing 10 billion yuan

each year in the past few years. In 1988, total housing subsidies amounted to 58.8 billion yuan. In contrast, the state and enterprises invested just 25 billion yuan in housing construction each year. The annual residential housing investment shortfall has been estimated at 20 billion yuan.

### *The State Has No Money But Citizens Have 600 Billion Yuan in Savings*

Take Beijing, for instance. In the past 40 years, Beijing completed 17 billion yuan worth of investment in residential housing, and per capita living space has increased from 4.75 square meters in 1949 to 7.45 square meters today. Nevertheless, there are still 400,000 households that are either homeless or have housing difficulties and over 5 million square meters of old, dilapidated and hazardous housing. Coupled with the fact that the city's population is projected to increase 1.5 million by the year 2000, all this will require an annual investment of 5.5 billion yuan. Yet the most the state and enterprises can come up with is just 4 billion yuan, resulting in an annual gap of 1.5 billion. This is the situation in Beijing. It is worse in other cities.

Moreover, the retrenchment and austerity policy, as part of economic rectification, is still in effect. Although the national economy, propped up mainly by enterprises of the three capital sources and township and town enterprises, has been expanding, the profitability of most state-owned enterprises has been slipping. Many localities are running up deficits or tightening their belts. But while the government has no money, citizens have 600 billion yuan of savings in hand. Housing is the largest durable consumer good for a household, yet people depend on government subsidies for the most minimal upkeep and maintenance (at a cost of hundreds of millions of yuan to the government each year, according to officials from the Ministry of Construction).

Hence the desire among policymakers in China to push ahead with housing reform across the board as soon as possible in order to create a macroeconomic climate. In their own words, the purpose of housing reform is to put funds to good use so that people can own their own homes. In particular, housing must be provided for workers now living in dilapidated structures.

### *Why People at the Bottom Want Housing Reform?*

The housing problem on the mainland is partly a function of overly rapid urbanization so that there is not enough housing to go around, and partly a function of unequal distribution among workers and between units.

Housing subsidies (known as "hidden subsidies") differ greatly among workers. Take one-child couples in Beijing, for instance. Some live in a 12-square meter one-story house. Others may live in a two-room apartment. It costs 5,000 yuan to build a one-story house and 50,000-100,000 yuan to build a building with two or more stories. Each month the state or enterprise contributes five yuan toward the management of a a one-story house

and 18 yuan toward the management of a two-story house. If rents are calculated on a commercial basis, rent subsidy amounts to 50 yuan for a one-story house and 330 yuan for a multi-story house.

Each year Chengdu Engine Company receives less than 200,000 yuan in rents but spends 1.2 million on repair, maintenance, and upkeep, effectively subsidizing housing to the tune of 1 million yuan.

The Beijing No. 6 Construction Company has 12,000 workers but has solved the housing needs of just 5,000 households. The company each year spends 900,000 yuan on upkeep and maintenance but takes back merely 140,000 yuan in rents. The other 760,000 yuan amount to a hidden subsidy by the company. In other words, workers in company housing not only are allocated housing free of charge but also get to use the housing free of charge, its upkeep and maintenance being paid for by some of the profits created by workers not allocated public housing. This is inequity within a unit.

In China, the work unit is responsible for actually building houses. Since units differ in economic resources, the level of their investment in housing construction also varies significantly. A number of small schools, enterprises, and units could not afford to build in decades, even as other units put up above-standard houses. The result is that over-consumption coexists with serious shortages in residential real estate. A central news unit in Shanghai, for instance, built over a dozen units of housing in one year while a glove factory in the municipality with 200 workers bought two houses after struggling for decades, thus solving the housing needs of just eight of its workers. Under Ministry of Construction regulations, a two-room apartment should have an area of 50 square meters. Before housing reform, many enterprises in Yantai and Shanghai were building apartments ranging from 55 to 60 square meters, a few reaching 67 square meters. After housing reform, the more square footage of housing you occupy, the higher your rent. (In other words, above-standard housing commands higher rents.) Consequently, most units are now smaller than 50 square meters, making it possible to build an additional 600 units of residential housing.

Inequity between work units has forced countless housing-less workers to leave one company for another for the sake of housing, not an uncommon phenomenon in China.

According to a report in CHANGCHUN RIBAO, of the commercial housing put up for sale by the municipal development company between 1987 and 1988, 90 percent were bought by people with jobs and power. Rarely does an enterprise buy a house for its workers. All the latter can do is to look at the houses and sigh.

The various inequities mentioned above are the rationale constantly on the lips of housing reform officials in China as well as a phenomenon mentioned again and again by numerous Chinese newspapers and magazines. Even more important, they are on the minds of families

experiencing housing difficulties. How can they not want housing reform to speed up?

Analyzed at a deeper level, housing reform must get rid of free allocation and subsidized use. In other words, do away with the low-rent system and bring about the transition to housing commercialization.

According to reports, Deng Xiaoping proposed in 1978, "Can't more ways be found to solve the housing problem? For instance, allow private housing construction or private construction using public funds. Paying for a house in installments. Make use of funds in the hands of the people but have the government provide materials. The potential here is not insignificant."

*Deng Xiaoping Said Rents Must Be Adjusted To Convince People That They Would Be Better Off Buying the House Instead*

In 1980, Deng Xiaoping said, "Let township residents buy houses or build their own houses. Not only new houses but also old houses should be put on the market. You can pay for it in one lump sum or in installments over a period of 10, 15 years. After the introduction of home ownership, rents probably would have to be adjusted. Rents should be adjusted in the light of housing costs to make people feel that home ownership is worthwhile."

#### *What Has Changed After a Decade of Housing Reform*

In accordance with Deng Xiaoping's thinking on housing reform, the State Council decided that to solve the urban housing problem, single-source investment must be replaced by multi-source investment by mobilizing the enthusiasm of four parties—the central government, localities, enterprises, and individuals. Before 1979, the bulk of housing investment for township residents came from the treasury. Basically, housing construction was a government responsibility. After 1979, investment by individual citizens has gone up. Personal investment accounted for 2 percent of housing construction investment in 1979, 8.8 percent in 1985, and 18 percent in 1988. These increases have been accompanied by an expansion in housing construction investment from enterprises, thereby pushing up such investment nationwide from over 1 billion yuan annually in the past few years to 20 billion yuan each year in the Sixth Five-Year Plan.

The Chinese Communists have carried out a host of experiments in the sale of public housing. Between 1979 and 1981, an experiment was launched in the sale of homes at full price in 23 provinces and municipalities. Because of low incomes and low rents, not many houses were sold. In 1982-85, a pilot project was carried out in 160 municipalities and 300 counties in which the state subsidized two-thirds of the sale price of a house. While well received by local people, the project was suspended because enterprise subsidies were actually exceeding two-thirds and people could not afford home ownership. After 1986, the sale of houses at full construction cost

was revived, again putting to test the workers' ability to pay. In 1988, houses were offered for sale on favorable terms. In Tianjin, for instance, 500,000 square meters of low-cost housing were put up for sale at 200 yuan per square meter. It was snapped up in no time. Housing for the workers of Beijing Department Store was priced at 350 yuan per square meter. Wuhan City offered housing for sale to hardship households at 238 yuan per square meter.

The adjustment of rents based on housing costs can follow any one of several models.

One is raising rent subsidy, as practiced in Yantai, Tangshan, and other municipalities. In this model, rents were raised to the level of costs as calculated using five elements. In addition, subsidies are issued on a monthly basis. Yantai raised the monthly rent to 1.17 yuan per square meter and issues housing subsidy at the rate of 23.5 percent of a worker's salary. Shenyang raised the monthly rent to 1.42 yuan per square meter and issues housing subsidies at the rate of 24 percent of a worker's salary. This practice is intended to punish those people who occupy above-standard housing, occupy too much housing, and take too much money.

Two, raise rents in small incremental steps but hand out no subsidies. Tengzhou, Shandong, for instance, raised the monthly rent from the original .053 yuan li per square meter to .35 yuan. Macheng Shi in Hubei raised the monthly rent from the original .10 yuan to .32 yuan. Neither hands out subsidies.

In the third model, the government collects a housing deposit. Some units in Beijing, for instance, require workers allocated two-room apartments to pay a rent deposit of 2,000 yuan. When the worker moves out, the deposit, minus interest, will be returned to him. In effect the increase in rent takes the form of interest.

Many other cities have been experimenting with new rents for new housing to prevent new housing from being absorbed into the old system, which would only complicate housing reform. Some units in Beijing raised the rent for new housing to 0.55 yuan per square meter while the rent for old housing was usually 0.13 yuan per square meter. Unfortunately, of the 100 million square meters of new housing completed across the nation each year, a large portion still becomes part of the old system. It seems that the only solution is for the state to issue a document and introduce a mandatory new system.

#### *Roadblocks To Housing Reform*

As in other reforms, the most difficult thing about housing reform in China is trying to change people's thinking and adjust interests.

Some people say joint production contracting has enabled the countryside to encircle the city successfully, so housing reform too should start with county towns. The reason is that there has always been considerable private housing in county towns and prices there have

also been quite low. Moreover, most of the people in county towns are migrants from the countryside who are better able psychologically to cope with the change. Facts back up these arguments. Housing reform in Liaozhong County and Jin County in Liaoning Province and Dalate Banner Township in Inner Mongolia have indeed created new mechanisms in a few short years. In a break with the practice of the state providing the iron rice bowl by allocating housing, the units have announced that they would no longer allocate housing for free. Instead the workers are to build their own houses or buy their own houses. Take Dalate Banner Township, for instance. The Banner government stipulated that it would no longer allocate public housing for free beginning January 1989. All workers would be issued a subsidy equivalent to a year's salary. Workers already in public housing are encouraged to buy it with their own funds. Others not in public housing are offered low-interest loans to build or buy their own homes. In a little over six months, 95 percent of public housing was sold. In 1985 public housing accounted for 72.5 percent of the township's total housing stock. That figure dropped to 3.5 percent in 1990. Meanwhile, personal investment rose from 40 percent in 1984 to 80 percent in 1990. Like the masses, the leaders too built their own houses or bought houses in accordance with regulations. It can be said that housing commercialization has been realized in Dalate Banner and that housing reform has basically been achieved there. There is a host of county towns which have gone in for such thorough reform.

#### *Housing Reform More Complicated In Large Cities*

But the problems in the large cities are more complicated. Once you start reforming, you either hurt somebody's feelings or trample upon personal interests, which presents a tricky problem. Officials of the housing reform office are still busy conducting research and verifying facts. They have been soliciting opinions from all quarters again and again and reworking the reform plan, moving prudently on every front. The cities are carrying out pilot projects in limited areas only, not daring to move boldly on a municipal-wide basis. Before 1990, for instance, Beijing confined its housing reform to just 11 units on a trial basis.

Having embarked on reform, some cities and units have also found that it is difficult to beat a retreat. Chengdu, for example, is one large city that has gone in for full-fledged housing reform. Its home ownership program has come to a halt because of unresolved price-related problems. Scores of units already reformed have demanded a refund of their home purchase money.

And then there are some units that are impatient for reform but cannot yet get a handle on it. Yet others have not been allocated housing. The housing reform reports of enterprises strapped for housing construction funds have been piling up on the desks of city government officials, their approval held up for long periods. There has been a flood of complaints from the masses. Some criticize the leading organs and cadres, charging that

reform has been "watered down." It seems that what is happening in housing reform today is like what has happened in economic structural reform. While the people at the top and bottom are willing and eager, obstruction at the middle has prevented reform from moving ahead.

Some say the only people who are genuinely committed to housing reform are the tiny handful of officials who are honest in performing their duties and are wholeheartedly devoted to working for the people as well as members of the public who lack housing or are extremely poorly housed. Workers already housed in two-room apartments, particularly officials at all levels who are already living comfortably in spacious quarters without paying much in rent, feel that it is better not to reform at all. (In Mainland China, housing is allocated in accordance with your administrative rank. The higher your rank, the larger your accommodation.) Who wants to reform housing and pay a higher rent? This is how the man in the street sees the problem and this is also one reason why housing reform has not been able to develop a macroeconomic climate.

Some people involved in theoretical work say that the main roadblock to housing reform in China is to be found in the reformers themselves. The government lacks clear specific objectives for housing reform. It has no precise idea as to how to institute a set of new operating mechanisms for the production and distribution of housing. Officials are confused as to whether the new system should be based on public ownership or private ownership. Muddled thinking necessarily expresses itself in ever-changing policies. Two years ago, for instance, officials from housing reform offices everywhere said that Circular 11 of the State Council called for housing commercialization: Overhaul cheap rents, for starters. Increase rents. Increase capital. Promote home ownership. Later the CPC leadership proposed "housing privatization, with the sale of homes as a main tool." For a while, therefore, housing reform had two objectives. What is the relationship between commercialization and privatization? People are confused. Not knowing what to do, they hesitate to move forward and take a wait-and-see attitude.

Have reformers been too impatient? According to the plan in State Council Circular 11, housing reform is to be phased in gradually in all townships across the nation within three to five years. Of the 80 cities scheduled to introduce reform in 1988, only Chengdu came up with a reform plan. Most did not do anything. Circular 11 also demanded that rents be calculated in accordance with the five elements within three to five years. People whose monthly rents exceed 1 yuan would be issued appropriate subsidies. Now that too seems premature. It would be quite an achievement if we manage to do that in 10 years.

#### *How To Get Out of the Fix*

By early 1990, 19 municipalities and 30 counties had unveiled a housing reform plan. Moreover, 192 municipalities and counties in 28 provinces, municipalities, and autonomous regions have introduced piecemeal reform measures. Elsewhere in China, 450 cities and over 10,000 townships have not made any move. Housing reform has barely begun.

To help create a macroeconomic climate for housing reform without delay, some people say governments at all levels, from central to local, must be determined to stick to housing reform. The national government should promptly review experience and issue documents to help expedite reform. Townships already embarked on housing reform should keep up their effort and intensify reform, extending their limited successes to achieve total reform and help create a nationwide macro-climate.

#### *Jiang Zemin Vows To Get Rid of Three Ideas*

Some people are even more blunt. Whether housing reform can succeed, they say, hinges on the resolve and actions of the Beijing leadership. Let us take a look at Jiang Zemin's reading of housing reform. He said, "We must do away with three ideas. One, the idea that low rents and the distribution system are welfare services demonstrating the superiority of socialism. This concept, present since liberation, must be eliminated. If this is what socialism means, then construction will not be able to take off and the rice pot is bound to become empty. Each year the state shells out so much money, like pouring money down a bottomless pit. Only inputs, no outputs. This is not commodity economy. This concept is not a correct concept. It is not inherent in socialism. Two, the idea that housing reform is part of the political terms of service based on one's rank. Three, the idea that housing should be excluded from personal consumption expenditures.

#### *A Questionnaire Survey in Chongqing*

Let us now take a look at a questionnaire survey on housing reform in Chongqing conducted by the Chongqing Chang Jiang Steamship Company.

Housing reform was considered as contributing to stabilization by 79.6 percent of the representatives, compared to 13.1 percent who thought otherwise. The latter group was better housed.

Raising rents was supported by 93.5 percent of the representatives, of whom 55.8 percent wanted rents to be raised in stages and in groups. Five percent of the representatives abstained while just 1.5 percent were against higher rents. The company's move to charge higher rents on above-standard housing was supported by 94.8 percent of the representatives, of whom 48.1 percent even thought the increase was too modest and should be higher still. Only 1.5 percent opposed the rent increase.

The idea of enterprises and workers cooperating to build houses was favored by 84.6 percent of the representatives, and just 8.1 percent said that the amount of housing to be built should depend on the size of the loans from the enterprise. This attitude was found among representatives who had basically solved their housing problem, particularly regular rank cadres.

The questionnaire survey also yielded 130 comments and suggestions from 78 representatives, which can be summed up as follows: 1) Compulsory measures should be taken to bring about housing savings; 2) raise a specified amount of money for households without housing; 3) the level of welfare housing rents should be raised to 0.30 yuan per square meter of usable floor area (up from the original minimum of 0.04 yuan). The question of affordability does not arise here; 4) extreme dissatisfaction with above-standard housing.

From this questionnaire, can we conclude unmistakably that the masses are unreasonable? Can we blame them for slowing down housing reform?

Let us now look at the housing conditions of Chinese citizens. In 1989, nationwide a family typically spent 1 percent of its income on housing. In Beijing, it was 0.89 percent, compared to 8 percent in 1953. At that time wages were low and the monthly rent was 0.34 yuan per square meter. Later wages doubled while rent dipped to 0.13 yuan per square meter.

Elsewhere in the world, housing typically accounts for 25 to 30 percent of a family's income in developed nations and 15 to 25 percent in moderately developed nations. In 38 countries that have the same per capita GNP as China, housing costs constitute 8 to 15 percent of a family's income.

In China, rent is cheaper than a pack of cigarettes. That has got to change. There is just no alternative. Actually everybody now recognizes that. Housing reform would make very slow progress if we rely on the enlightened leadership of local officials and enterprises alone. A decade of reform proves that nobody wants to take the lead in housing reform. To reform means to raise rents, first and foremost, which means that the masses must part with more money. It is a thankless job. Moreover, when you go in for housing reform, you upset the vested interests of officials with spacious living quarters. Hence the difficulties of local officials who are wary of offending people. To put an end to this patently lopsided consumption pattern, there is no alternative but to have the central government impose solutions nationwide.

Note that megalopolises like Shanghai and Beijing have been accelerating housing reform since the beginning of this year amid a flurry of activity. The number of housing reform test sites in Beijing has risen from 11 units to over 100. The city's 10 outlying suburbs all unveiled a housing reform plan late last year. The countryside has been encircling the cities when it comes to housing reform. Beijing Mayor Chen Xitong said the city would concentrate its energies on housing reform

after the Asian Games. Shanghai has mobilized its entire citizenry to discuss the housing reform plan, whose basic themes are the introduction of a public foundation, the purchase of bonds, the raising of rents, and issue of subsidies, and the sale of public housing. Mayor Zhu Rongji has made housing reform one of the three major tasks facing the Shanghai government today.

As the mouthpieces of the CPC Central Committee and the State Council, RENMIN RIBAO and JINGJI RIBAO recently have also been calling for the early introduction of housing reform, giving it extensive coverage. All the signs show that the national housing reform plan, which has been studied by the State Council housing reform office for over two years, will see the light of day in 1991. It will affect the residents of all townships. What used to be low rents will be revised to reach the level of two kinds of fees. That is, the state will no longer pay maintenance fees. If members of the public are to build houses at their own expense, the rents should be raised to 0.55 yuan per square meter in Beijing and 0.44 yuan in Shanghai. Each city would have its own variations. As to whether rents will be increased gradually or in one bold stroke and whether the government will issue subsidies, the localities are expected to make their own decisions in light of local conditions.

#### *Housing in China: Future Trends*

If housing reform is to be launched nationwide, the most important thing is to clear up and solidify housing construction funding channels. A statutory housing savings plan is needed to establish a personal housing fund. When that comes to pass, then urban China will be like other nations in that shelter will become the largest durable consumer good. A person spends 10 to 15 years saving money and then buys a home or has a house built by pooling funds. At that time housing cooperatives, now so popular around the world and already numbering over 70 in such cities as Beijing, Shenyang, and Shanghai, will multiply rapidly as housing construction funds in the mainland circulate in a positive way, putting an end to the current situation in which the state is the only investor while the individual enjoys free housing. Housing conditions in Mainland China will greatly improve in the future.

#### **Audit Planned of Key State Construction Projects**

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[By reporter Fu Gang (0265 0474)]

[Text] Beijing, 28 Mar (XINHUA)—This reporter has learned from sources concerned that the Auditing Administration, in coordination with the State Planning Commission, will conduct an auditing inspection of 83 key state construction projects this year.

Last year the Auditing Administration and the State Planning Commission conducted an auditing inspection of key state construction projects with a total investment

of 110 billion yuan, through which a large amount of funds were discovered lost, budgetary estimates incorrect, and losses and waste serious. Through that auditing inspection, unnecessary investments were cut and improperly appropriated funds recovered, thus saving more than 2.5 billion yuan for the state.

A responsible person of the Auditing Administration disclosed that poor management of capital construction projects is still an outstanding problem. For instance, there are too many charges and apportioned expenses, and construction units undertake extra-budgetary projects, causing a tremendous loss of state investment. Designing units overestimate project costs, and management departments fail to examine such costs strictly, considerably increasing budgetary estimates of investment. The State Council has required the State Planning Commission, the Auditing Administration, and the Ministry of Supervision to strengthen their supervision and inspection and to deal sternly with those responsible for serious economic losses.

An auditing inspection team organized by the State Planning Commission and the Auditing Administration inspected the second-stage construction project of a large iron and steel works in east China last April and then issued a 19-page "auditing conclusions and decisions" to the project command. The auditing decisions pointed out: In its budgetary estimates, this works overestimated labor insurance payments by 44.69 million yuan which should be deducted while settling the accounts of its second-stage project; the surplus of 36.36 million yuan in foreign exchange left over from the first-stage project should be returned to the state in full; and the works should pay sales tax retroactively for the 3.084 million yuan it made because of a price difference in disposing of materials in 1989. The works implemented those decisions one by one and in January of this year informed the Auditing Administration by letter of how such decisions had been carried out.

#### Guangdong Official on Housing Reform

HK2003074591 *Guangzhou NANFANG RIBAO*  
in Chinese 10 Mar 91 pp 1, 3

[Report: "Unifying Understanding and Speeding Up—Provincial Vice Governor Liu Weiming Answers Reporter's Questions on Housing Reform in Guangdong Province"]

[Text] The provincial party committee and government decided that advancing comprehensive housing system reform is one of the six major tasks for deepening reform in this province this year. This has aroused strong repercussions among urban residents. People are concerned about the relevant policies, measures, and concrete steps in this reform. Therefore, NANFANG RIBAO reporter Fan Xiangqun recently interviewed provincial Vice Governor Liu Weiming, who is also head

of the provincial leading group in charge of housing system reform, on a number of questions about the reform.

[NANFANG RIBAO] The provincial party committee and government recently pointed out many times that conditions for carrying out comprehensive housing reform in this province are ready and that the reform must now be started. Why so?

[Liu Weiming] Over the more than 40 years since the founding of the PRC, this province has allocated huge amounts of money for building residential houses. In the period between 1979 and 1989 alone, money used for this purpose amounted to 20 billion yuan, or 14 times the total during the previous three decades. In 1970, housing investment accounted for 6 percent of total investment in capital construction; in 1988, the proportion rose to 15.7 percent. The state spent quite a lot of money every year on building houses but the housing problem still could not be fundamentally settled. In the 10-Year program, the state places housing construction in an important position. If the reform in the previous 10 years mainly settled the food and clothing problems, then the reform in the coming 10 years will mainly settle the housing problem. Obviously, in the next 10 years, to improve people's housing, we cannot merely rely on state investment; instead, we must blaze a new trail by setting up new mechanisms for pooling state, collective, and individual funds for developing housing and changing the unreasonable systems. At present, people's consumption demand for household appliances has decreased. Selecting long-term consumer goods will be a major part of the economic development plans in the future. A good solution is to bring residential housing into the field of people's daily consumption. This will not only build up an important consumption channel for the huge amount of surplus funds and reduce pressure on ordinary consumer goods, but will also broaden the area of consumption, thus promoting development of related industries, such as construction, building materials, and domestic decoration. This will positively overcome the structural market slackness. Therefore, we should actively and steadily advance comprehensive housing-system reform.

[NANFANG RIBAO] What steps will be taken in this province to carry out this reform.

[Liu Weiming] Since the provincial government approved the "Opinion on Reforming the Urban Housing System in Guangdong Province" in September 1988, housing reform has been carried out for more than two years. Leading groups and offices for housing reform have been set up in most cities and counties. So far, five cities and 10 counties in this province have formulated their housing reform schemes; and the schemes of another three cities and six counties have been delivered to the provincial and city authorities for approval and their housing reform will start this year. In the next two to three years, all cities and towns in this province will carry out housing system reform. Cities and counties which have not yet started housing reform will all adjust

public housing rent on 1 April this year. Monthly rent for each square meter of floor space will be changed from 0.25 yuan to 0.4 yuan; the housing reform schemes in all cities will be put into practice not later than the end of next year; housing reform in all counties, with the exception of some mountainous counties with difficulties, will begin this year or next. Cities and counties which are now carrying out housing reform should continue to perfect backup measures in all fields, set up housing funds, formulate rules for managing housing funds and for maintaining and managing public houses after they are sold. Reform of the housing system is a comprehensive reform, which cannot be completed within a short time because it involves complicated economic relations. Governments at various levels should strengthen leadership over housing reform, strengthen propaganda in this field, and settle understanding of the problems in various social circles. Housing reform is not merely the sale of public housing. It also includes rent adjustment, the founding of housing funds, the settlement of housing difficulties, and the promotion of individual housing savings and housing credit. Therefore, it is of importance to set up and perfect housing reform institutions. The provincial authorities have decided to reinforce the provincial housing reform office and all cities and counties should also do this.

[NANFANG RIBAO] What are the difficult points in the housing-system reform in our province?

[Liu Weiming] Housing reform in this province has been carried out for over two years and more and more people in various social strata have come to hold the same opinion about it. However, differences still exist over some issues. First, on house prices, some people said that current house prices are too low and this may cause losses to the state as "public property is turned into private property." But other people said that house prices were too high and workers, especially office workers, cannot afford to buy houses. Some people said that the sale of public housing would perpetuate the stratified system in housing distribution formed in the past because those who occupy more housing space will gain greater benefit. At present, many of the housing reform measures were adopted when the backup policies were imperfect. In order to ensure the smooth advancement of housing reform, it is necessary to unify people's thinking with regard to these questions. A difficult point is to fix house prices and this is also a question most frequently discussed by the people. In the course of housing reform in this province, house prices are calculated according to a standard price and consideration is first given to the purchasing power of the masses so that they can afford to buy their own houses. If house prices are fixed at too high a level, workers cannot afford to buy houses and this is not in keeping with our country's current distribution system. Practice has proved that there were many problems in the housing welfare system, characterized by low rents and high subsidies, which have lasted for several decades. By selling public houses

to workers and gradually raising the rents of public housing, the state can not only reduce management and maintenance expenses, but can also retrieve a substantial amount of money for building new houses, thus settling the housing difficulties of those who do not have sufficient housing space. This will be beneficial to both the state and the people. Some cadres and workers now enjoy larger housing space and their expenditure will increase more in the course of housing reform. This is reasonable. This will check the tendency to pursue larger and better housing conditions by some people. Provincial and local authorities have made many investigations and calculations when formulating their schemes and have widely solicited opinions from the masses. In order to further improve the measures, they have made supplementary stipulations on some relevant issues several times after reform measures were adopted. Thus, the relevant policies should be reasonable and in keeping with this province's actual conditions. Of course, we cannot expect that the contradictions that have piled up over several decades will be completely settled once and for all.

[NANFANG RIBAO] What problems exist in the present housing reform work in this province?

[Liu Weiming] The main problems are as follows: First, some localities have not followed housing distribution standards laid down by the provincial authorities, just implementing housing standards formulated by their city or county authorities. Second, some localities do not strictly carry out housing reform policies laid down by provincial authorities. They expand the proportion of those who can enjoy preferential treatment when formulating their own concrete schemes for implementing relevant policies or increase the items of preferential treatments. Third, some localities do not raise the prices of houses and flats which exceed the floor space limits. Fourth, when some flats which are decorated luxuriously are sold, their prices are not raised high enough. Although these problems only exist in some localities, they must be immediately corrected. It is therefore necessary to reiterate the need to strictly implement the housing reform policies laid down by the provincial authorities. When localities fix house prices, they are not allowed to be lower than the standards laid down by the provincial authorities. Floor space and decoration standards, rent reduction or exemption policy, the time limit for reselling houses purchased by individuals, and all housing policies laid down by the provincial authorities must be followed by all localities, who are not allowed to go their own way.

#### Shanghai Announces New Major Construction Projects

OW0804030991 Beijing XINHUA in English  
0243 GMT 8 Apr 91

[Text] Beijing, April 8 (XINHUA)—The Shanghai Municipal Government has announced 39 new projects in the fields of urban construction, transportation, posts

and telecommunications, and public facilities for 1991, according to the Shanghai-based "WEN HUI DAILY".

The projects include the Ningpu Bridge across the Huangpu River, expansion of two roads in the city, the Wusong Coal Gas Plant, expansion of Waigaoqiao Port, a power plant, a nonferrous metal plate factory, a chemical plant, a leather-processing center, an underground parking lot and the Yuyuan Department Store.

Meanwhile, the city will complete ten ongoing projects this year, including the Nanpu Bridge across the Huangpu River, expansion of the terminal building of Hongqiao International Airport, rubber, tire, cold-rolled plate and flour mills and plants, and the second-phase construction of the Baoshan Iron and Steel Works.

## FOREIGN TRADE, INVESTMENT

### Export-Oriented Economy Develops in Coastal Areas

HK0603102091 *Beijing CEI Database in English*  
6 Mar 91

[Text] Beijing (CEI)—Economy in China's 19 coastal open cities and Hainan Province has opened wider to the outside world than ever before, according to statistics released by the State Statistical Bureau.

The output value of industrial export products in the coastal open areas except Shanghai and Hainan reached 47.4 billion yuan in 1990, accounting for 14.8 percent of the total industrial output value and up 2.6 percent from 1989. Of which the output value of industrial export products of the four special economic Zones (SEZ) rose to 17.41 billion yuan, accounting for 50.8 percent of the SEZ's total industrial output value and up 7 percent.

Export value in 15 coastal open cities in 1990 reached 11.29 billion U.S. dollars, up 14.2 percent from 1989 and accounting for one-fifth of the nation's total export value. Among them, export values of Qinhuangdao, Yantai, Weihai, Nantong, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai in 1990 were all up 25 percent from 1989, while that of Shanghai reached 5.32 billion dollars and Guangzhou 1.39 billion dollars, both record high in history. Export value of the four special economic zones reached 5.22 billion dollars, up 32.8 percent and accounting for 12.1 percent of the country's total.

Foreign-funded enterprises have played a big role in earning foreign exchange. Export value of foreign-funded industrial enterprises in coastal open cities in 1990 reached 1.51 billion dollars, up 67.1 percent from 1989, and that of foreign-funded enterprises in the four special economic zones 2.43 billion dollars, up 60.6 percent.

Foreign exchange earnings of the 19 coastal open cities, SEZ's and Hainan in 1990 amounted to 14.61 billion

dollars, up 13 percent from 1989. Of which 12.94 billion dollars were earned in export, up 13.5 percent.

Foreign exchange earned in tourism by the 19 coastal open areas and Hainan reached 5.04 billion yuan in foreign exchange currency, up 52.2 percent.

### Impact of Foreign Banks on Financial System

91CE0303A *Hong Kong KUANG CHIAO CHING [WIDE ANGLE] in Chinese* No 220, 16 Jan 91  
pp 52-55

[Article by Chung Chien-hsiu (6945 0494 0208): "Clashes With Foreign Financial Institutions"]

[Text] China's Further Removal of Restrictions on Foreign Finance Capital

On 10 September 1990, The Chinese People's Bank published "Shanghai Foreign Financial Institution and Sino-Foreign Joint Venture Financial Institution Control Methods" (hereinafter termed the "Methods") in Shanghai. This was a further removal of restrictions on foreign capital that was a follow-on to "Special Economic Zone Foreign Owned Bank and Sino-Foreign Joint Venture Bank Control Regulations" (hereinafter termed the "Regulations") that the State Council published on 2 April 1985.

As a developing country, China's importation of international finance capital naturally holds some self-evident advantages, such as helping to infuse foreign capital, providing high quality financial services to the outside world, the introduction of new management techniques, etc. However, at the same time, China is also a socialist country in the midst of reform. Certain aspects of the operation of its domestic economy are incompatible with the logic of international finance capital operations. In addition, the reform strategy per se also requires that certain objective laws be followed, such as the introduction at the proper time of suitable reform measures, which is a key issue in the success or failure of the country's economic reform.

Therefore, whether the present is a suitable time to expand the removal of restrictions on international finance capital, as well as the scale of removal of such restrictions has become an issue that very much merits our concern. In answering this question, let us first begin by reviewing the history of the introduction of foreign finance capital.

During the 1930's, Shanghai was a Far Eastern financial center. Following liberation, the Chinese Government intensified its control over foreign commercial banks as a means of protecting the national banking industry. This resulted in the closing of foreign commercial banks one after another. By 1952, only four overseas China and foreign owned banks remained, and the scope of their activities was also limited only to representing national bank foreign exchange activities.

By the early 1980's, in order to gain experience in introducing and controlling foreign-owned banks, and since quite a few foreign financial institutions were seeking to come to China to set up branch banks and representation offices, the Chinese Government approved the establishment in Shenzhen of a branch of the Nanyang Commercial Bank, a member of the Hong Kong Chinese banking group in 1981. In 1983, it also approved the establishment in Shenzhen of representation offices of eight foreign owned banks in accordance with "Chinese People's Bank Head Office Control Regulations Pertaining to the Establishment in China of Permanent Representatives of Overseas Chinese and Foreign-Owned Financial Institutions." However, there was a great difference between a representation office and a branch bank. A representation office could only conduct liaison, provide advice, hold talks, and provide services of a nonprofit-making nature. Thus, it can be said that during that period the introduction of foreign finance capital did not come into conflict with China's financial system.

#### **The Clash Between Foreign Owned Banks and the Chinese Financial System**

Because the clamor to elevate representation offices to branch banks grew louder with each passing day, on 2 April 1985 the State Council finally published the "Regulations" permitting foreign (or joint venture) banks to open in special economic zones. In addition to financial services (such as foreign currency remittances, foreign currency exchange, discounting of bills, import and export foreign exchange settlements, documentation, etc), the scope of foreign (and joint venture) bank activities also included financial services that state banks had formerly monopolized, which made macroeconomic regulation and control easier, such as Chinese and foreign currency savings and loans, and overdrafts. It was because of these latter services that the emergence of foreign (and joint venture) banks began to clash with China's financial system. This will be discussed later on in this article.

Following publication of the "Regulations," six foreign (or joint venture) banks opened for business in Xiamen by the end of 1986, and by the end of 1987 11 foreign (or joint venture) banks were open for business in Shenzhen. In addition, one sole proprietorship bank was operating in Zhuhai. At the same time, the original four overseas Chinese and foreign owned banks in Shanghai also correspondingly expanded the scope of their operations.

During the six-year period from 1985 through 1990, the emergence of foreign (or joint venture) banks unquestionably produced predictable benefits for China's economy. First of all, they provided high quality foreign-related financial services. One feature that foreign (and joint venture) banks provided that national banks could not duplicate was the numerous branches and sub-branches abroad. They were able to provide broad information and consulting services for domestic customer's

economic activities abroad. Second, since China's financial industry is extremely weak in terms of numbers of personnel, foreign (and joint venture) banks doing business in China had to train large numbers of personnel to meet their own needs. This indirectly trained banking personnel for China. In addition, the establishment in China of foreign-owned banks that were already providing services to Chinese enterprises also occasioned a change in their payment of income taxes to the Chinese Government instead of the government of the countries to which they belonged, thereby increasing sources of revenue for the Chinese Government.

#### **International Finance Capital Beats Supranational Corporations**

Most important was the benefit that the Chinese Government desired most, namely assistance in the infusion of foreign capital. Actually, international experience shows that the introduction of international finance capital usually beats the introduction of supranational corporations. This is because supranational corporation investment of locally raised capital usually amounts to between three and four times the amount of capital they export.

#### **Disadvantageous for China's Foreign-Related Financial Services**

Nevertheless, the special economic zone foreign (and joint venture) banks were very clearly unable to take up the role of infusing foreign capital from the very outset. Take Xiamen, for example. When they first opened for business, foreign (and joint venture) banks there were only interested in providing low risk, low cost, high profit foreign-related financial services. They did little risky business such as making loans and providing guarantees. As a result, up until 1988 their foreign exchange deposits in China were consistently larger than their loans, and there was even a flow outside China of the foreign exchange deposits differential! In 1988, for the first time the Xiamen foreign (and joint venture) banks, had foreign exchange deposits in China that were smaller than the amount of loans. The difference between the new foreign exchange savings and loan balance amounted to \$90 million, which was tantamount to an infusion of \$90 million in foreign capital. If just 50 percent of the Xiamen foreign (and joint venture) banks' foreign exchange loans for 1988 were provided the Xiamen Special Economic Zone, this infusion of \$90 million would extrapolate to a \$45 billion infusion into the Xiamen Special Economic Zone. This would amount to more than 90 percent<sup>2</sup> of the foreign exchange used in Xiamen in 1988 (\$49 billion<sup>1</sup>, a seemingly very large amount. However if we closely examine the composition of the foreign (and joint venture) banks' foreign exchange, we will find that 60 percent of the total loan amount was working capital for the three kinds of partially or wholly foreign-owned enterprises, showing that even by 1988, foreign (and joint venture) banks were still not inclined to make investment loans. If working capital to other than three kinds of partially or wholly

foreign-owned enterprises is added in, the percentage of investment loans is still lower.

The foregoing situation not only provides a severe warning to those who naively suppose that the introduction of international finance capital equates with the introduction of foreign capital. It also directly shows that too precipitous an introduction of international finance capital may only be tantamount to a disguised importation of foreign financial services, which is not necessarily undamaging to China's foreign-related financial services import substitution.

### Clash With Existing System

In addition to the foregoing adverse effects, the emergence of foreign (and joint venture) banks also clashed with China's existing financial system. The clash was primarily in three regards as follows:

First, they weakened central government control over the uses of foreign exchange. When a country's foreign exchange earning capacity is low, and it is urgently in need of foreign exchange to help develop a national economic take-off, control over the use of foreign exchange makes sense, no matter the form of its economic system. China has two tools for controlling the use of foreign exchange. The first is an imports permit system that limits the importation of 45 kinds of merchandise that are not welcome. This is under control of the Ministry of Foreign Economic Relations and Trade. The other one is a foreign-exchange-use-quota system that controls the retention of foreign exchange and foreign exchange loans of every unit in the country. This is under control of the State Administration of Exchange Control. In the latter case, one precondition is that foreign exchange retention by units in the country is according to a fixed amount rather than a spot exchange retention method, and all the foreign exchange earnings of every unit in the country must go directly or indirectly through national bank exchange conversion. Although the "Regulations" of 1985 explicitly stipulated that foreign (or joint venture) banks could only handle foreign exchange deposits of foreigners and overseas Chinese, in fact, the inadequate supervision over foreign (and joint venture) banks of Chinese People's Bank branches in special economic zones resulted in some foreign (and joint venture) banks not depositing in national banks the export foreign exchange earnings of Chinese enterprises, disguising them as savings deposits. This provided Chinese enterprises the opportunity to circumvent the State Administration of Exchange Control and use foreign exchange as they pleased. Even though a liberalization of foreign exchange controls was bound to occur sooner or later in the reform of China's economy, nevertheless, until such time as the seriously distorted domestic price system and the irrational conduct of enterprises could be rectified, any liberalization of foreign exchange controls would be detrimental rather than beneficial.

### Prudent Prevention of a Deterioration of China's Foreign Debt Structure

In addition, the emergence of foreign (and joint venture) banks also might possibly interfere seriously with the central government's control of the scale of foreign debt. For developing countries in general, how to use foreign debt effectively as a means of expanding the foreign exchange earnings capabilities of exports, and how to avoid pernicious inflation of the scale of foreign debt is a very serious problem. China's problem is particularly complex. Since China's economy is primarily one of a system of ownership by the whole people and a collective ownership system, the existence of soft budget restrictions, with the frequent delegation of authority to incur foreign debt, is bound to lead to a catastrophic rise in the scale of foreign debt. This was an important lesson learned from the rapid rise in the scale of China's foreign debt and deterioration of the foreign debt structure (i.e., a rise in the percentage of short-term, high interest foreign debt) in 1988. Consequently, despite the extraordinarily chaotic state of the Chinese Government's authority to control foreign debt,<sup>3</sup> it continues to be helped by several important ministries and commissions of the central government. The introduction of foreign (and joint venture) banks was bound to clash with this situation. Since foreign (and joint venture) banks could issue foreign exchange loans to State-owned enterprises and collective enterprises in China, which was virtually a new form of foreign debt, this form of foreign debt was not entered into ledgers showing the use of foreign capital to be regarded with the same weight as borrowing abroad. Furthermore, the problem of soft budget restrictions continues to exist in these debt-incurring enterprises. This incurring of debt continues to constitute an extremely irrational element, and the debts of these enterprises will become a national burden. In addition, derivative problems stemming from the proneness of developing countries to make the mistake of incurring debt at many different points may also appear. One example is the too-dispersed investment of new debt that makes impossible a linkage from beginning to end that creates waste, or forces continued reliance on foreign debt for the purchase of upstream inputs. Finally, this new form of foreign debt is actually a kind of shortest-term, highest-interest debt that can most harm China's foreign debt structure.

The third way in which the foreign (and joint venture) banks clashed with the Chinese financial system was their weakening of the way in which the central government's control over renminbi credit funds were invested. The reason for control over the way in which renminbi credit were invested is the same as the reason for control over the scale of foreign debt. One important reason for the 1988 dislocation of the economic structure was that, for several years previously, credit funds were unreasonably invested in newly developing consumer goods assembly industries that wasted a lot of foreign exchange in nonproductive fixed assets, and also in processing industries that wasted substantial amounts of basic products. One important spirit underlying the program to

improve the economic environment and rectify the economic order beginning in 1989 was to re-control renminbi credit funds. A very great overcorrection was scarcely avoidable in this undertaking, yet it was certainly rational. The foreign (and joint venture) bank issuance of local current loans that the "Regulations" published in 1985 permitted became a new renminbi financial channel for Chinese enterprises outside of national banks, and one in which controls over the way in which investment was used was very weak. At the present time, vertical control and supply is still applied to local credit funds. Local branch banks of the Chinese People's Bank cannot regulate or control the total amount of local credit or the way in which it is invested very effectively, and they do not even have much ability to control local branches of the various specialized banks. The total amount of credit of foreign (and joint venture) banks in special economic zones, and the way in which it is invested are even more difficult to control. In 1988, two Xiamen foreign (or joint venture) banks tried out renminbi business for the first time. By the end of the year, their renminbi surplus increased to 14 billion yuan, a long way from the 800 million yuan for Xiamen City, but this was, after all, only a beginning.

In connection with the developing and opening of the new Pudong Zone in Shanghai, the Chinese People's Bank published the "Methods" in Shanghai on 10 September 1990. One marked difference between the "Methods" and the "Regulations" of 1985 was that the removal of restrictions was extended from foreign (and joint venture) banks to foreign (and joint venture) financial institutions. Moreover, one even more important difference was that the "Methods" abolished all of the local currency business that the "Regulations" permitted. Obviously, this was a decision that the Chinese Government made with regard to the local currency dealings of foreign (and joint venture) banks following discussions. It demonstrated that the aforementioned concerns were beginning to be addressed, although the abolition of all local currency dealings contained an element of overcorrection.

In addition, the "Methods" also instituted new regulations requiring that when foreign (or joint venture) financial institutions handled final settlement import business for noncommercial investment enterprises, the foreign exchange needed for the imports must in the form of a loan from the financial institution. This, we believe, was done also to address the foregoing problem of Chinese enterprises holding unauthorized accounts in foreign (or joint venture) banks.

In short, the new "Methods" went beyond the old "Regulations" in some ways; they even overcorrected somewhat. Nevertheless, quite a few problems of foreign (or joint venture) financial institutions clashing with the Chinese financial system were still unresolved, and this increased the cost of further infusions of international finance capital. Overcoming these problems was something that reforms limited to the financial system could not achieve; but, rather,

required reforms in concert with other components of China's economy in order to succeed.

#### Footnotes

1. These two figures are actually not comparable. Since Xiamen City is larger than the Xiamen Special Economic Zone, more than \$45 million of the foreign capital that the foreign (or joint venture) banks brought in supplied Xiamen City. However, if we bear in mind that the \$45 million of foreign capital that Xiamen City actually used did not include foreign loans that the Fujian provincial government had to raise instead, then the actual figure for foreign capital that Xiamen City used still barely approached the "total" amount of foreign capital used in the Xiamen Special Economic Zone.
2. Leaving aside the questions raised in Note 1, this "90 percent" is clearly an overestimate. This is because part of the capital brought in that went through the Xiamen foreign (and joint venture) banks was nonthree kinds of partially or wholly foreign-owned enterprise funds, and this part was not additionally figured into the amount of foreign capital used.
3. The State Planning Commission is responsible for drawing up China's annual foreign debt plan, and its intermediate and long-range foreign debt plans. The Chinese People's Bank is responsible for the international currency fund and for the Asia Development Bank and Africa Development Bank loans. It is also responsible for loans from foreign commercial banks, and for the examination and approval of the issuance of debentures abroad. The Ministry of Foreign Economic Relations and Trade is responsible for government loans. The Ministry of Finance is responsible for World Bank loans. The State Administration of Exchange Control bears responsibility for managing and monitoring foreign debt-related functions.

#### Exports to Germany Up 32 Percent, Imports Drop

OW2803100091 Beijing XINHUA in English  
0743 GMT 28 Mar 91

[Text] Berlin, March 27 (XINHUA)—China's exports to Germany increased by 32 percent while the latter's exports to China reduced by 16 percent, according to a German weekly magazine, published today.

In an article about the Sino-German trade in its weekly, Berlin's German Economics Institute said that on the basis of the 10 billion marks (about 6.2 billion dollars) of 1989, the trade between China and Germany increased 10 percent in 1990.

Since 1986, Germany's exports to China have not been increased; instead, its imports from China have arised. [as received] Germany has trade deficit for the first time in 1989 with 1.2 billion marks and the trend goes on in 1990.

About the reasons for Germany to export less to China last year, the article gave two reasons: one is the participation of the Germany in "international sanctions" against China after June 4, 1989; another is that China has taken "strict thrift policies" and reduce the imports from other countries including Germany.

### 16.8 Percent Foreign Trade Growth Cited

HK1803020791 Beijing CHINA DAILY in English  
18 Mar 91 p 2

[By staff reporter Ren Kan]

[Text] China's foreign trade in the first two months of this year continued to pick up compared with the same period in 1990, according to a report released yesterday by the General Administration of Customs.

Imports and exports together were up 16.8 percent during the two month period, hitting \$14.2 billion, the report said.

Although February's imports declined by 11.4 percent from the same month in 1990, the value of imports during the first two months still enjoyed an increase of 1.7 percent to reach \$6.2 billion.

China's export volume in the January to February period reached \$8.04 billion, up 31.9 percent over the corresponding period of 1990.

Excluding non-trade items such as free international aid and donations, items imported as foreign investment and raw materials for processing, China in the first two months of this year enjoyed a trade surplus of \$2 billion, up 33 percent, and imports standing at \$4.52 billion, up 2 percent from last year.

Hong Kong remained the mainland's largest trading partner, the report said, with a total trade volume of \$5.2 billion during the first two months of the year.

Of the total trade volume, the mainland's exports to Hong Kong rose by 32.4 percent to \$3.47 billion, and imports registered a 24.8 percent increase to reach \$1.74 billion.

China witnessed a \$1.79 million trade deficit with the European Community (EC) during the first two months of this year. During that period, China sold \$868.68 million worth of products to the EC while importing \$870.47 million worth of products from the EC.

The United States also enjoyed a \$42.6 million trade surplus with China during the January to February period. In the two month span the United States sold \$704 million worth of American products to China and imported \$661 million worth of Chinese products.

China exported \$239.8 million in goods to the Soviet Union during the first two months of this year, up 72

percent from the same period in 1990, and imported \$282 million worth of Soviet items, down 3.2 percent from last year.

Sino-Japanese trade during the first two months of this year totaled \$2.1 billion, of which China's exports to Japan accounted for \$1.2 billion, up 30.9 percent from last year. China's imports from Japan stood at \$926.7 million, down 2.3 percent from the same period last year.

In the first two months of this year, trade between the Chinese mainland and Taiwan showed marked expansion with trade value hitting \$375.7 million.

The mainland's exports accounted for \$57 million of the total, up 167.9 percent, and the mainland's imports from Taiwan reached \$318.5 million, up 41.1 percent from the same period in 1990.

### Beijing To Issue Regulation on Software Protection

OW2903173491 Beijing XINHUA in English  
1307 GMT 29 Mar 91

[Text] Beijing, March 29 (XINHUA)—China will soon issue its first regulation on software protection, an official from the Ministry of Machine-building and Electronics Industry told XINHUA today.

He said the regulation will enable both Chinese and foreign computer companies to have their software copyrights protected legally.

The official said that China has paid more attention to protecting software copyrights in recent years and has issued several laws and regulations which protect software copyrights to some extent, including the technology contract law, patent law and trademark law.

The people's courts at the middle level have set up law offices dealing with cases of property rights encroachment and dealt with over 100 cases so far.

For instance, the local court in Shenzhen, south China, dealt with a case in which a company in Shenzhen plagiarized software of the 3-M Company of the U.S. As a result, the court fined the Shenzhen company 70,000 U.S. dollars and forced it to pay the 3-M Company 50,000 U.S. dollars in compensation.

China drew up a draft regulation on protection of software copyright in 1988 and had it rewritten several times in accordance with the opinions of experts from various circles, including some from the United States and Japan.

He said the regulation to be issued soon was drawn up within the framework of the law of work rights of the People's Republic of China, also to be issued soon, and in light of international laws on software protection.

According to the ministry, during the Eighth Five-Year Plan (1991-1995), China will gear up the development of the software industry and strengthen the management of the software market.

Meanwhile, the country will set up a system of software registration, arbitration and law implementation so as to create a better environment for the development of the country's software industry.

## ECONOMIC ZONES

### Foreign-Funded Enterprises Increase in Hainan

*OW1803152791 Beijing XINHUA in English  
1404 GMT 18 Mar 91*

[Text] Haikou, March 18 (XINHUA)—The economic co-operation bureau of south China's Hainan Province recently released information showing that the province ratified the establishment of 63 foreign-funded enterprises in the first two months of 1991. 89 The number of new such enterprises increased by 1.1-fold over the same period last year, while the over 54.09 million U.S. dollars in foreign investments were up 4.8-fold.

More than half of the enterprises are related to industry or agriculture. Twenty-four of the enterprises, which are distributed mainly in the fields of industry, tourism and real estate development, required an investment of over one million U.S. dollars each.

In addition, Hainan Province has recorded notable achievements in terms of domestic co-operation since the beginning of the year. Representatives from many inland enterprises have visited Hainan to conduct inspection tours and to hold trade talks. In the first two months of 1991 alone 26 domestically funded enterprises with contract investments of over 885,000 yuan have been ratified. Ninety-nine percent of the investment was from other provinces.

### Pudong To Link Interior, World Market

*91CE0348A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 1, 15 Jan 91 pp 16-19*

[Article by Huang Zhenyu (7806 6297 6170), Zhong Zhe (6988 0772), and Dai Youheng (2071 2589 1854) of the Shanghai Academy of Social Sciences: "On the 'Bridge' Characteristics of Shanghai's Pudong New District's Economic Structure"]

[Text] The party Central Committee and the State Council's grand, strategic decision to open up and develop Pudong will have a major impact on restoring Shanghai's great prestige and promoting China's entire economic development.

It is our opinion that, overall, the Pudong New District's economic structure should have the characteristics of a "bridge." This means Shanghai's Pudong New District should act as a bridge that links Shanghai directly with

the world economy and the economies of the rest of the country, especially the Changjiang River Delta and basin, so that Shanghai's economic structure not only plays an important role in the systems of international division of labor and domestic division of labor but also makes the two systems dependent on each other and promote each other. The characteristics of this "bridge" structure are: It is wide open both to the interior and to the outside world, and its reproduction process has an interwoven, interdependent, and interchangeable relationship that circulates between the outside world and the interior, so that it can absorb and digest elements from the outside and from the inside and can adapt fully to the competition and changes in the domestic and foreign markets. The ideal scheme is for the Pudong New District to turn Shanghai into a Western Pacific economic and commercial hub that faces the international markets, which gives impetus to the nation's economic development, and which links China to the world. This ideal plan is the basis of the "bridge" characteristics of the Pudong New District's economic structure.

### I. The Characteristics of the Pudong New District's Economic Structure as a "Bridge"

1. It must be able to adapt to the needs and the changes of the international markets, including the international commodities, the financial, the technological, and labor markets. The industrial structures of its transportation, telecommunications, information and other service sectors too must be compatible with and are linked to customary international regulations and the needs of the international markets. These cannot be achieved overnight. We must be realistic and begin by straightening out the infrastructure such as finance, information, municipal administration, transportation, and communications before gradually developing the other service sectors.

2. It should be able to meet the needs of domestic economic development. The 1990's will be crucial years in the transformation of Shanghai's economy from an internally oriented economy into an externally oriented economy. It will also be a decade of accelerated transformation into an externally oriented economy for Shanghai's hinterland—the Changjiang River Delta and basin. We will run into many conflicts as we go through these transformations. For example, the industrial and product structures will become very similar and repetitive, and the economic strength may become dispersed and will offset each other. Today, the important task is, beginning in the Eighth Five-Year Plan period, to coordinate the opening up and development of Pudong with the economic development of the Changjiang River Delta and basin and slowly make their respective industrial structure and product mix supplement as well as complement each other. Guided by the principle of increasing economic efficiency and taking care of everybody's economic interests, we should give play to the best qualities of each region to achieve reasonable division of labor and mutual development. For this reason,

amid Pudong's opening up, development, and its participation in competition to capture international market shares, we must help accelerate the transformation of Shanghai and its hinterland's economy into an externally oriented economy so as to promote the prosperity of the entire Changjiang River Delta and basin.

3. It should satisfy the needs of revitalizing Shanghai's economy. The Pudong New District depends on Puxi to develop, but in turn it also promotes the revitalization and transformation of Puxi. Before optimizing Pudong's economic structure, we must carefully analyze the advantages and disadvantages of Shanghai's various industrial sectors and products, selecting and lending support to those that have the best chance of breaking into the international markets. In optimizing the economic structure, we should integrate the readjustment of the stock of assets and the plans for the incremental assets with Pudong's development. Only in this way can we get closer to the goal of gradually turning Shanghai's economy into an externally oriented economy. At the beginning, there should be some difference in openness between the two shore of the Pujiang River. Only when conditions ripen should we gradually narrow the difference. We can consider selecting a few enterprises in Pudong and decontrol them but at levels, depths, and scopes different from enterprises in Puxi which have a similar product-mix and industrial structure. In short, Pudong's and Puxi's economic and industrial structures should be put under comprehensive planning in terms of the types of industries that may utilize foreign capital, improvements in transportation and communications, municipal construction and other infrastructure, industrial and commercial development, and science, education, and cultural undertakings, so as to coordinate the east with the west, let the east spur on the west, let the west support the east, and lay the foundation for a harmonious east and west.

4. It should meet the demands of "large-scale opening up, high starting point, and multi-level operations with new mechanisms." Pudong's Waigaoqiao Free Port should become an important confluent point of international trade and facilitate the free movement of international capital and in turn help bring in foreign capital, export goods to earn foreign exchange, and create opportunities for technological development, personnel, and information gathering. This will also provide a good opportunity for Shanghai to restructure its economic system, especially its foreign trade system and financial system.

In view of the characteristics of the Pudong New District's economic structure as a "bridge," in the long-run, Pudong should focus on the development of the tertiary industry and secondary industry which emphasizes the high-tech and newly developed industries and vigorously bring in foreign capital and absorb foreign advanced technologies and management skills. The ultimate goal is to help transform Shanghai's economic structure into an advanced, externally oriented structure of the 21st century. It must not only cooperate fully with the developed

nations and the newly industrialized nations and regions but also cooperate fully with other provinces and cities. It not only must generate economic impact and be an important link in China but also foster compound, pluralistic, and three-dimensional economic ties with the international community. To create such an economic structure, we must first upgrade and transform those industries which traditionally have been strong exporters and upgrade and replace their products, then gradually develop new and advanced products, and eventually set up an economic structure and economic mechanisms capable of competing in the world.

From the point of the industrial structure, the Pudong New District should make electronics, laser, bio-engineering, marine engineering, new materials and other high-tech-based rising industries its mainstay, make the real estate and manufacturing industries that are capable of competing in the international markets its foundation, and make finance, foreign capital, information processing, consultation, and foreign-related services its wings. It should put special emphasis on the knowledge-intensive and technology-intensive industries and strengthen its capital-intensive industries but still take full advantage of the superiority of its labor-intensive industries and give play to its comprehensive, multi-level effects.

## II. The "Bridge" Characteristics of the Internal Economic Ties Between Pudong and Puxi

Worldwide, cities along rivers have developed and prospered on both banks. Shanghai's Pujiang River is an exception. For historical reasons, only the west bank of the Pujiang River has developed into a prosperous city, creating great disparities economically and in urban outlook between the two cities on the east and the west banks. In spite of this, Pudong and Puxi have always maintained inseverable internal economic ties. Besides lending vigorous agricultural support to urban Puxi, Pudong has developed sizeable secondary and tertiary industries and has forged an interdependent relationship with Puxi in many areas. Thus, the opening up and development of Pudong is by no means just to serve as a relief for or help disperse Puxi's industries or to create a second Puxi-style industrial base. By opening up and developing Pudong and making use of Puxi to spur on Pudong, we hope to transform Shanghai into an international, hub-like, modern urban center and turn it into an important window as China opens up to the outside world. As a result, a brand new, more profound, and higher level of internal relationship between Pudong and Puxi will emerge. Thus, we should make plans and arrangements for Pudong and Puxi as one unit.

Puxi's strong points are its scientific and technological capabilities and the processing ability of its fully equipped manufacturing industry. Besides the fact that it has no room for further development, its disadvantage lies mainly in the failure to integrate its R&D with its

production and its scientific and technological capabilities with its processing capability, and as a result, Shanghai's products have not been able to capture much ground in the international competition. For example, let us look at developing high-tech industries. Although Puxi has acquired considerable strength in the areas of science and technology, and some of its products have found their way into the international markets, the extent is very limited. This is mainly because it has yet to straighten out the relationships among R&D, production, and sales, and that is why it has not been able to commercialize the results of its R&D, and some projects have even met with an early demise. Besides the problem with China's own systems, this is also due to the absence of any link to the international markets. The opening up and development of Pudong can serve as Puxi's bridge to the international markets. The Pudong New District can give play to Puxi's scientific and technological potentials and help Puxi develop its international high-tech industries and provide the conditions and the opportunities for Puxi to make high-level industrial developments. Investments in the development of modern high-tech industries and products are risky. They require market information and smooth channels to help commercialize the products. With the opening and development of the Pudong New District, in accordance with the changes in the international markets, in coordination with Puxi's R&D capability and industrial manufacturing capability, by providing financial support, and through the technological transformation of the three kinds of wholly and partially foreign-owned enterprises and aged enterprises, we can set up pluralistic, complex, externally oriented enterprise groups to turn Puxi's scientific and technological capabilities into commercialized high-tech products. Specifically, the Pudong New District can make use of Puxi's scientific and technological, processing, and accessorizing capabilities, and by providing international information and new design ideas and helping to solve the fund problems, it can let Puxi design and develop new products and produce prototypes and eventually make batch productions. It may then utilize its commercial channels to commercialize the fruits of Puxi's efforts and bring the products to the international markets, in turn, forming a sales network that links up with the international marketing channels.

So far as Puxi's strong processing industry, especially the mechanical and electrical industries in the installation sector, is concerned, the opening up and development of Pudong will play a positive role in raising the technological standards and boosting its competitiveness in the international markets. The three kinds of wholly and partially foreign-owned enterprises that exist in Shanghai prove that the utilization of direct foreign investments and joint or cooperative joint ventures are workable ways to transform Shanghai's aging enterprises. Shanghai has many aging enterprises that urgently need transformation, but they lack funds. Through joint ventures and cooperative joint ventures, the aging enterprises not only will get the necessary funds but also the technologies, facilities, management experiences, and

personnel training they need. Through the Pudong New District's opening up and development, Puxi's aging enterprises can take advantage of these conditions to readjust and optimize their structure, change their internal and external relationships, and increase their competitiveness in the international market. These will also help resolve some of the conflicts caused by the increasing similarity among the domestic industrial structures. Currently, the world economy is going through a period of industrial readjustment. Some developed countries are shifting their labor-intensive industries to the developing nations and regions. The opening up and development of the Pudong New District will make it possible for Puxi to squeeze into the international market in a timely fashion.

### III. The "Bridge" Characteristics of the Economic Relationship Between the Pudong New District and the Changjiang River Delta and Basin

Under the new historical conditions of the opening up and the development of Pudong, Shanghai's Pudong New District and the Changjiang delta and basin are economically linked in a thousand and one profound ways. This relationship will become more externally oriented and structurally advanced, and it will determine the general trend of China's economic strategy in the 1990's.

The Changjiang River delta is highly developed in science, technology, and culture. It is strategically located, and its processing industry is very well-developed. It has a contingent of skilled workers, and the small- and medium-sized enterprises and township enterprises are well-known for their versatility. The Changjiang River delta is only 1 percent of the nation's total areas, but in 1988, it accounted for 14 percent of the GNP, 15.5 percent of the GVIAO [Gross Value of Industrial Output], and 14 percent of the state's total revenue. The Changjiang River basin spans 18 provinces, cities, and districts; it has a population of more than 400 million, and its total area is 18.75 percent of the nation's total area. It accounts for 40 percent of the nation's GVIAO and is the most important economic belt among China's river basins. How can the Changjiang River basin, especially the delta area, hold on to its lead position at home while optimizing its economic structure to meet the demands of becoming more externally-oriented and more advanced at the same time? This is an important question in China's national economic strategy and regional economic development. The key to optimizing the industrial structure lies in gathering up the dispersed and isolated regional superiorities to give the Changjiang River basin overall superiority. This is where we need to turn to the international markets, give play to the Pudong New District's role as the link to the outside world, and overcome regional separatism, blockade, and prejudices to create an unite front against the outside world.

In developing the economy of the Changjiang River basin, the Pudong New District should give full play to

its own structure as a bridge and actively serve the economy of the Changjiang River basin and delta in the areas of foreign trade, finance, transportation, port facilities, information and technology and help bring this region into the domestic and international systems of division of labor. It should help enterprises improve their technological structure and product mix, boost their competitiveness in the international market by raising their management and administration standards, and help forge various relationships between these enterprises and the international markets. In this way, the Changjiang River Delta and the cities and towns along the river banks and not only will be able to resolve their own regional industrial structural and distribution problems but also take advantage of the Pudong New District to become more externally oriented, bring in and digested usable advanced technologies, let the export and import-substitute industries be their guide, accelerate the technological transformation of their processing industry, and create some enterprise groups and produce hot-selling export goods that are highly competitive in the international markets, so that the Changjiang River Delta and basin will become China's most important trans-province and trans-city, integrated, externally oriented river basin-type regional economy.

In short, the Changjiang River Delta and basin are the hinterland and the backbone of the development of the Pudong New District and the whole of Shanghai. Only with this hinterland can the economy of the Pudong New District and Shanghai have room for maneuvering, and it is this hinterland that will inject new life into Pudong and the whole of Shanghai. Thus, only by combining Shanghai with the foreign countries and foreign businesses can the opening up and the development of Pudong produce a major impact.

#### IV. Some Thoughts On Our Policies

1. In formulating specific policies to open up and develop Pudong, we must first cultivate one concept, and that is, Pudong is China's, and the opening up and development of Pudong is a national undertaking; it is an important national strategic act, a breakthrough point that will propel China's national economy onto a benign cycle and take us into the world market. It is a move that will let one breakthrough point spur on the whole country.

2. The essence of the "bridge" characteristics of the Pudong New District's economic structure is to create the conditions for circulating and optimizing the allocation of key factors of production within this country and worldwide to achieve maximum economic efficiency by opening and developing Pudong. To do this, we need a major breakthrough in terms of the economic structure, and we need to install a new economic mechanism which is compatible with the needs of the laws of the commodity economy, which links up with the international markets, and which can protect China's interests as a socialist country.

The creation of this new economic mechanism must be based on the premises of upholding China's system of public ownership of means of production and protecting

our socialist interests, and we must boldly absorb and learn from the advanced management and administrative methods and experiences that reflect contemporary, socialized laws of production. Externally, the new economic mechanism should be compatible with the changes and the rhythm of international competition. Internally, it should be able to put together a socialized production process effectively, allocate the resources properly, and increase the overall efficiency and overall quality of the national economy. The existing three kinds of wholly and partially foreign-owned enterprises play an exemplary role: as enterprises that operate according to the laws of the commodity economy under the socialist system, they are guided by the market, and with respect to production, supply, and sales, they maintain very close ties with the international markets, have decision-making rights, and are responsible for their own profits and losses. But their activities are the foreign extension of our domestic reproduction activities. They accumulate funds for this country for a certain period of time, but they also increase society's total demand, and require the state to match the amount of human, material, and financial resources. Thus, to a certain extent, they must be put under state planning, accept the state's guidance, supervision, and control. The opening up and development of the Pudong New District will force Shanghai, along with the whole country, to follow the laws of the commodity economy even more closely and to act according to customary international practices and link up with the international market. So far as the government is concerned, implementing macroeconomic regulation and control, perfecting the legal system, promulgating workable policies and laws and regulations, formulating scientific regional and industrial policies, looking into a reasonable investment structure, and improving the investment environment and so on are the manifestations of its effort to guide, harmonize, supervise, and serve the three kinds of wholly and partially foreign-owned enterprises. They create a roomy environment to stimulate enterprises' internal driving mechanisms. For example, the new foreign trade system should facilitate and encourage enterprises to band together and take part in international competition and at the same time allow some foreign trade organizations to operate in certain product sectors. With respect to the issuance of permits and the setting of quotas, the Pudong New District's foreign trade organizations should have certain decision-making rights. With respect to finance, we can open some local foreign exchange banks, foreign-owned banks, finance companies, and even a foreign exchange market. As permitted by law, customs administration should make accommodating the people a policy; it should allow its personnel greater freedom of traveling in and out of the country. In short, we should have policies that complement one another; we should utilize the economic measures with versatility and formulate specific measures in terms of taxation, finance, credit loans, prices, and allocation to give expression to the biased industrial policy and the choice of key investments as a way to support enterprises' economic activities.

3. The Pudong New District needs brand new administrative and management organs. We must make every effort to eliminate bureaucracy and signs of poor efficiency. Many things encountered in the opening and development of Pudong can be handled by the development companies (including joint Sino-foreign companies) or trade associations and chambers of commerce. The important thing is to perfect the legal system and train capable specialized personnel. Today, we must have a plan to vigorously train all kinds of urgently needed professionals to deal with externally oriented matters.

4. We need new wage and benefit and social security systems to bring the workers' enthusiasm into play, so as to facilitate the utilization of foreign capital and make a smooth change from one operating system to another.

The "bridge" characteristics of the Pudong New District's economic structure are not something that can be formed or perfected overnight. But it is vital that we emphasize these characteristics right from the beginning and formulate a series of medium- and long-term plans to achieve our goal.

#### **Waigaoqiao Port Company Opens in Pudong**

*OW1503141691 Beijing XINHUA in English  
1348 GMT 15 Mar 91*

[Text] Shanghai, March 15 (XINHUA)—The Shanghai Waigaoqiao Port Service Company opened for business here today.

General manager of the company Zhong Weilin said at today's opening ceremony that the first stage of the new port construction project in the Waigaoqiao District, which is located in the Pudong New Development Zone, includes four berths of over 10,000 dwt each, construction of which will start 1 July and be finished in 28 months. By that time, the port will have an annual handling capacity of 2.4 million tons.

The new port in the Waigaoqiao tax-free area will make full use of the preferential policies for the Pudong development zone and attract foreign funds to build itself up into an international port. On its completion, the port will become a materials distribution center and an outlet for the foreign-oriented trade of Pudong.

The new company also handles loading and unloading of goods, storage, transportation and other related business.

### **TRANSPORTATION**

#### **New Railway Construction Projects Planned**

*OW1903222791 Beijing XINHUA Domestic Service  
in Chinese 0354 GMT 19 Mar 91*

[By reporter Wang Yanrong (3769 1693 2837)]

[Text] In line with the development of coal resources in western China, the Railways Ministry will, during the

Eighth Five-Year Plan period, use its financial resources to construct three or more "energy channels" for the continuous transportation of the "black gold" to various parts of the country.

Since the successful completion of the first phase of the world famous Daqing Railway project—China's first double-track electric railway solely for coal transportation—in 1988, more than 500 billion [figure as received] metric tons of coal have been transported in the past two years. At present, more than 85 percent of the main construction of the second phase of the project has been completed with close to 200 km of tracks being laid. It is estimated that the whole line will be operational by 1992. By that time, when railway lines constructed under both phases of the project are connected, the annual transportation volume of the Daqing Railway will reach between 50 and 100 million metric tons. It will establish eventually a sea-bound channel for the transportation of coal produced in Shanxi Province. The 252-km Houma-Yueshan railway, which is currently under construction, will linkup with the Jiaozuo-Zhicheng line, a north-south railway in central China, opening up a southbound channel for the transportation of coal from Shanxi. The 940-km Jining-Tongliao line, a joint venture between the Railways Ministry and the Inner Mongolia Autonomous Region, with a loan from the World Bank, will transport coal from western Inner Mongolia to various localities in the northeast. It is estimated that 200-400 km of the line will be ready for the placement of track this year.

In addition, the construction of the Shenmu-Shuo County railway and the Datong-Huager mono-track electric railway, invested in by the Huaneng Concentrate Coal and the China National Coal Import and Export Corporation, respectively, has commenced. These two railway lines will linkup with the Beitongpu and Daqing lines and accelerate the development of coal resources in Shanxi. In addition, the Railways Ministry has plans to renovate the Qinghuangdao-Shenyang railway during the Eighth Five-Year Plan period, thus opening up yet another outlet for coal from Shanxi. To coordinate the construction of these railways, local governments at various levels will allocate funds for the construction of some coal collection points and feeder-railways.

It has been ascertained that, to meet the needs that have arisen from the gigantic railway construction programs in China during the Eighth Five-Year Plan period and to arouse the enthusiasm of enterprises and both the central and local authorities, the state will implement gradually the principle of "overall planning; combining higher and lower levels, different departments, and regions; different levels holding different responsibilities; and combined construction" to ensure the availability of funds for railway construction.

#### **Interprovincial Railway To Be Electrified by 1993**

*OW2504061191 Beijing XINHUA in English  
1545 GMT 24 Apr 91*

[Text] Fuzhou, April 24 (XINHUA)—The Yingxia Railway in east China (from Yingtan in Jiangxi Province

to Xiamen in Fujian Province) will be entirely electrified by 1993, said Zhang Jinshan, director of the Fuzhou Railway Bureau.

The Yingxia Railway was initially constructed in the 1950s. Despite the fact that it has since been remodeled several times, it still cannot keep up with local economic development. Therefore, the state decided to electrify the line, designating it as a key project during the Seventh Five-Year Plan period (1986-1990).

The work of electrifying the line began in 1986. At present, the Zhangping-Yongan-Laizhou and Shaowu-Yingtan sections have already been electrified and have opened to traffic.

The remodeling work on the last section, between Xiamen and Zhangping, will begin next year and is scheduled to be completed in 1993. At that time, the annual transport capacity of the 697 km railway will increase from 10 million tons to 14.5 million tons.

### **Jiangsu City Starts Ocean Transportation Company**

*OW0904123791 Beijing XINHUA in English  
1042 GMT 9 Apr 91*

[Text] Nanjing, April 9 (XINHUA)—An oceangoing transportation company was established yesterday in Lianyungang, a coastal city in east China's Jiangsu Province.

The company is the sixth of its kind following companies set up in Guangzhou, Dalian, Shanghai, Qingdao, and Tianjin. The company will operate two 10,000 deadweight ton (DWT) oceangoing vessels and other container ships regularly between Lianyungang and port cities in Japan, Brazil, Singapore, Thailand, South Korea, the United States, Canada, Australia, Hong Kong, and Western Europe.

The director of the company said that it will not only engage in transportation, but also in domestic trade, industry investment, and consulting services.

### **Civil Aviation Output Up Sharply in First Quarter**

*OW1104004991 Beijing XINHUA Domestic Service  
in Chinese 0855 GMT 10 Apr 91*

[Text] Beijing, 10 April (XINHUA)—The gross turnover hauled by enterprises directly under the Civil Aviation Administration of China [CAAC] was 592.53 million ton-kilometers during the first quarter of this year. They carried a total of 3,743,400 passengers and 88,089 tons of mail. Output was up, respectively, by 35.7, 37.6 and 28.5 percent over the same period last year.

This year, the enterprises directly under the CAAC extensively unfolded activities on "safety, quality, and efficiency" boosting civil aviation work to a higher level. During the first quarter, production safety and service quality showed improvement, and output continued to

surge ahead. In particular, the month of March was a peak production season with all production indicators recording higher growth. The gross turnover of these enterprises in March rose 32.7 percent from a year ago, and 44.9 percent over the previous month, setting a new record for the month of March. The number of passengers carried on domestic routes increased 35 percent over the same period last year.

### **Jilin Foreign Trade-Oriented Transportation Viewed**

*SK0104063791 Changchun Jilin Provincial Service  
in Mandarin 2200 GMT 30 Mar 91*

[Text] As was learned from the provincial conference on foreign trade-oriented transportation, which ended on 30 March, departments in charge of the foreign trade-oriented transportation have adopted positive measures to overcome the difficulties resulting from a lack of energy resources and means of transportation, and successfully fulfilled the province's foreign trade-oriented transportation tasks over the past few years.

Provincial Vice Governor Liu Xilin attended and addressed the conference. He pointed out: Foreign trade-oriented transportation is an important part of the entire foreign trade work, and the key to establishing a good reputation among customers and winning the trust of foreign firms. It plays a decisive role in international trade. Therefore, leading persons at all levels should attach importance to foreign trade-oriented transportation, strengthen its administration, and make the best use of existing means of transportation to meet, to the greatest extent, the needs in importing and exporting. In the past few years, our province encountered a rather serious problem in that the province's commodities for exports were shipped to other provinces. Export commodities worth more than 100 million were shipped to other provinces every year. This requires that we successfully control the transportation. All localities should make conscientious efforts to straighten out the market for the foreign trade-oriented transportation, and give full play to the role of the major channels for foreign trade-oriented transportation. Ours is a landlocked province whose commodities can be imported and exported only through the land ports of Tumen, Jian, and Hunchun and the water port of Daan alone so far. Most commodities are imported and exported through other provinces. A geographical position such as ours extends the scale and increases the links of our foreign trade-oriented transportation. This requires that personnel in the departments in charge of transportation to do a good job in coordination between departments, and provide favorable conditions for our province's foreign trade-oriented transportation to ensure the fulfillment of the tasks to earn foreign exchange through exports.

## AGRICULTURE

## Remedies Explored for Sluggish Rural Economy

91CE0433A Beijing NONGYE JINGJI WENTI  
[PROBLEMS OF AGRICULTURAL ECONOMY]  
in Chinese No 2, 23 Feb 91 pp 5-8]

[Article by Composite Department, Main Agricultural Survey Team, State Statistical Bureau: "Retrospective on China's Rural Economic Situation in 1990"]

[Excerpt] Editor's Note: All figures used in this article are as of the end of November 1990. [passage omitted]

## Main Difficulties and Problems Faced

**(1) Obstruction of Circulation; "Difficulty Selling" Farm Products Is Serious.** In 1990, agriculture reaped an all-around bumper harvest, and major farm and livestock products increased. But "difficulty selling" farm products was much more serious than during the fall of 1989. In particular, the inability to procure, store, or ship grain was fairly universal. In many places, granaries were filled to bursting. Granaries were filled to bursting in grain-producing areas, and even areas that ship in grain reported bursting granaries. Shipments were reduced or halted. According to the estimates of nine major grain-producing provinces including Jilin, Hunan, and Anhui, approximately 8.4 million tons of grain could not be put into granaries because of limited grain storage capacity. It had to be piled in rudimentary shelters. Now the farmers have large amounts of grain on their hands that they are anxious to sell. In Jilin, Heilongjiang, Hubei, and Hebei provinces alone, the peasants now have 6.7 million tons of grain for which they need to find an outlet.

There are numerous reasons for the difficulty selling grain: First, market grain prices have fallen, and another bumper grain harvest has been reaped. The peasants fear that grain prices will continue to fall, so they are anxious to sell their grain at a guaranteed price. Second, granaries are old and dilapidated, and few have been renovated or newly built. Storage capacity is inadequate. Third is the problem of the circulation system. Because of the prevailing system of dividing revenues and expenditures between the central and local governments and holding each responsible for balancing its own budget, many places implement market and regional blockades, prompted by parochial interests. Some do not enforce in-shipment plans, restricting the normal movement of grain. In addition, state macroeconomic regulation and control lacks teeth and has little ability. The unlimited procurement policy cannot be completely carried out. Grain enterprises' operating costs increase dramatically, losses are serious, and they do not take an active part in grain circulation.

The "difficulty selling" grain phenomenon defies regulation. Unless effective measures are taken to satisfactorily solve production, circulation, and consumption

problems, peasant interest in grain production will be impaired, and this will hurt the stable development of grain production.

Due to a slump in consumer markets, sluggish commodity flow, and slack allocation and transfers, other agricultural by-products are overstocked. Hog producing provinces now report obstacles in shipping porkers and difficulties selling pork. During the fourth quarter of 1990, pork producing areas had 3.45 million tons of pork available for shipment, but consuming areas wanted only 100,000 tons, an amount far short of what producing areas wanted to ship. Some places report overstocking and difficulty selling staple agricultural by-products such as wool, hemp, sheepskin, edible black wood fungus, and tea.

**(2) Continued Widening of the Price Scissors Between Industrial and Agricultural Prices, Agricultural Returns Decline.** Analysis of price survey data shows a 4.9 percent decline in the overall level of agricultural by-product procurement prices for the first three quarters of 1990 as compared with the same period in 1989. This included a 6.5 percent drop in grain procurement prices, a 7.7 percent drop in livestock product procurement prices, an 8.2 percent drop in aquatic product procurement prices, and a 15.2 percent drop in procurement prices of both dry and fresh fruits. The decline in procurement prices of agricultural by-product adversely affected both agricultural production and the peasants' livelihood. The foregoing data show a widening of the price scissors between industrial and agricultural commodities for a sharp decline in relative returns on agricultural products. Simultaneous with the 4.9 percent decline in agricultural by-product procurement prices during the first three quarters of 1990, peasant direct sales of agricultural by-products to nonagricultural residents also declined 5.7 percent; thus, overall peasant sales of agricultural by-products declined 5.1 percent over the same period in 1989. During this same period, rural retail prices of industrial goods rose 4.8 percent, producing a 10.4 percent widening over 1989 of the price scissors between industrial and agricultural commodities. As a result of changes in price ratios between industrial and agricultural commodities, the peasants lost 22.4 billion yuan of their more than 200 billion yuan in retail sales of agricultural by-products since the beginning of 1990.

In terms of price fluctuations and peasant cash expenditures relative to cash receipts, the 5.1 percent decline in prices of agricultural by-products that peasants sold during the first three quarters of 1990 reduced their income by 11.58 billion yuan. The 4.3 percent rise in prices of items consumed in daily life increased peasant expenditures by 11.23 billion yuan, in addition a 6.2 percent in retail prices of means of production increased their expenditures by 4.72 billion yuan. Thus, from price reversals alone, cumulative peasant losses amounted to 27.53 billion yuan for a per capita peasant loss of 31.50 yuan. Because of the injury peasants sustained from low grain prices, in some areas peasants are growing only

enough grain for their family's personal consumption. They do not want to grow more grain. The recently aroused interest in growing grain has been dampened again.

**(3) Development of Township and Town Enterprises Face Difficulties; Economic Returns Continue To Slide.** For the past year, the survival and development of township and town enterprises has continued to be restricted by a shortage of funds and the market slump. "Three ills" exist in the external environment as follows:

First is a contrast between the upturn in the speed of growth and a decline in returns. According to the advance calculations of 22 provinces, autonomous regions, and municipalities, township and town enterprise net profits for 1990 were put at 50.2 billion yuan, a decline of 2.6 billion yuan from 1989, or five percent. In absolute terms, such a decline in township and town enterprises' net profits had not occurred for many years. Deficit enterprises numbered 52,000, a 13 percent increase over 1989. Losses amounted to 3.14 billion yuan, up 23.2 percent. Profits and taxes were 100 yuan of gross income were 10.40 yuan, down 6.8 percent. This included profits and taxes of 8.20 yuan per 100 yuan of gross income for township and village enterprises, a 9.5 percent decline.

Second was a shortage of funds simultaneous with debt repayment arrears. Despite a loosening of bank credit during the last half of 1990, the poor accumulation mechanism of township and town enterprises themselves, the large amount of debt enterprises owned, and the heavy burdens that township and town enterprises bear served to intensify the conflict between supply and demand for funds. Reportedly, the various expenses of township and town enterprises in Guangdong Province amounted to 120 percent of enterprise sales income. In Henan Province, 1.5 billion yuan of township and town enterprise funds were tied up in "triangular debt." This amounted to 30 percent of their working capital.

Third, the accumulation of merchandise in inventory and the market slump produced a vicious cycle. According to reports from Jiangsu, from January to October 1990, funds tied up in the unsold finished goods of township and village enterprises totaled 11.13 billion yuan, up 16.9 percent from the same period in 1989. In Shanghai, 1.99 billion yuan worth of township and town enterprises' finished products remained unsold in inventory, up 24.5 percent. The same situation applied to many other provinces and cities including Beijing, Liaoning, Guangdong, and Fujian.

**(4) Little Increase in Peasant Income; Marked Slowing in Rate of Increase** Preliminary forecasts based on rural resident survey data show a peasant net annual income of about 630 yuan per capita, about 30 yuan more than the 602 yuan of 1989, about a five percent increase. Deducting price increases, the actual increase was about one percent. However, in many areas peasant income

declined due to lack of diversification in rural industry, a drop in prices of farm products, and a decline in agricultural production.

The increase in peasant income during 1990 was attributable primarily to the bumper harvest in agriculture, and increased output of agricultural products. Income derived from nonagricultural industries remained basically flat or increased only slightly. Analysis of peasant net income data from 30 provinces, autonomous regions, and municipalities shows peasant income from family businesses of slightly more than 500 yuan, largely from family farming for an approximately 30 yuan increase. Income from work in secondary and tertiary industries declined. Income from collective businesses increased slightly, including income from rural enterprises, which was substantially flat. Income from other nonproductive activities increased about four percent.

The main reason for slow income growth from agriculture was as follows: a widening of the price scissors between industrial and agricultural products causing a relative decline in returns from agricultural products, increase in peasant output bringing no corresponding increase in income. The reasons from nonagriculture were as follows: First was a decline in cash income from peasant family operated secondary and tertiary industries. During the first three quarters of 1990, peasant cash income from secondary and tertiary industries was 96.40 yuan, a decrease of four yuan from 1989, or four percent. Second was the portion of peasant cash earnings attributable to township and town enterprises went from a tremendous increase in 1989 to maintenance of the same level. Peasants earned only 29.65 yuan per capita from township and town enterprises during the first three quarters of 1990, maintaining the 1989 level.

Simultaneous with the slow increase in peasant income, peasant savings and cash on hand were uneven. In 1989, peasant families with a per capita income of less than 500 yuan accounted for 46.6 percent of all rural households. Cash on hand and bank savings of these peasant households amounted to only 31.4 and 48.2 percent of all cash and savings. However, peasant families with a per capita income of 500 yuan accounted for 53.4 percent of peasant households, and their cash on hand and savings amounted to 68.6 percent and 51.7 percent of all cash and savings. This shows that approximately 70 percent of rural capital is concentrated in the hands of 50 percent of peasant households. One half of rural households has enough of the "three main durable consumer goods", and enough of the "four new durable consumer goods." The other half lacks funds and has restrained its desire to buy merchandise. This is why it is difficult to open up rural markets.

The slow increase in peasant income had a bad effect on production and business. First was a decrease in productive investment. During the first three quarters of 1990, peasant productive investment was 139 yuan per capita, an increase of only 0.40 yuan over the same period in 1989, or a 0.3 percent increase. After deducting for price

increases, this investment actually declined 5.9 percent. Second was the impact on raising peasants' standard of living. During the first three quarters of 1990, peasant per capita payments for consumption declined 0.3 percent over the same period in 1989. After deducting for price rises, it actually declined 4.3 percent. Third was the impact on peasant ability to participate in markets. According to business statistics, total social commodity retail sales at the county level and below for the period January through November 1990 fell 3.4 percent from the same period in 1989. Sales of agricultural means of production increased only 1.2 percent over the same period in 1989. Sales of the main means of agricultural production largely declined, pesticide sales fell 18 percent, and sales of plastic sheeting fell 6 percent.

#### **Actions Recommended To Maintain Stable Development of the Rural Economy**

**(1) Raise Understanding, Absorb Lessons, and Enhance Reserve Strength to Avoid Another Slide Following a Bumper Harvest in Agriculture.** First, the broad masses of cadres must be guided in a correct analysis of the agricultural situation to maintain a clear head and a unified understanding of the agricultural situation. The policy of agriculture as the foundation for development of the national economy must be adhered to for a long time. As in former years, there must be unflagging strengthening of agriculture, development of agriculture, and support for agriculture, continued efforts made to place agriculture first in all economic work, continuing to stabilize all the Party's basic rural plans and policies. Next, lessons must be learned from the bumper harvest of 1984 being followed by a decline in output the following year. Correct policies must be used to guide the peasants in continuing to take a firm hand on agricultural production. According to discussions by those concerned about trends in the occurrence of natural disasters, 1991 will be a year of fairly severe natural disasters, with the possible occurrence of the resumption of cold weather in spring, which is very bad for agricultural production. In addition, it must be realized that the foundation for agriculture remains fairly brittle. Reserve strength for development remains insufficient, and ability to fight disasters is fairly low. When drawing up plans, working out policies, and assigning work, Party and government leaders and units concerned at all levels should continue to devote attention to the strengthening of agriculture as a long-term strategic task. Investment in agriculture should be gradually increased. The state should formulate investment policies tilted toward agriculture, and use laws as a means of supporting increased investment in agriculture. Future large scale investment in the capital construction of agriculture and development of industries that produce things agriculture needs, as well as funds that government at all levels use in agriculture should be steadily increased each year, their percentage rising. Right now, the labor accumulation system should be put on a sound footing, and major efforts devoted to the capital construction of water conservancy to improve the ability of agriculture to

resist natural disasters. Fourth, emphasis should be placed on raising returns from investment in agriculture. Investment in rural capital construction and investment in the development of agriculture must both be linked to returns as a means of increasing overall agricultural productivity and improving effective supply of commodities. Market demand should serve as a guide for increasing the internal vitality of agriculture, efforts made to shape a self-development mechanism in agriculture for the sustained, long-term, and stable development of agriculture.

**(2) Reform the Circulation System To Ensure the Smooth Flow of Products, Efforts Placed on Solving Problems of Difficulty Selling Farm Products.** In 1990, difficulty selling agricultural products existed virtually everywhere. The urgent task of the moment now is to do a good job of harvesting and storing the grain that is produced so that the grain won through the hard work of the peasants will not be lost, every effort made to ensure the peasants' increased output and increased earnings. First, grain production and marketing relationships have to be straightened out. The state has to bring into full play the regulatory and control role of areas from which and to which grain was shipped, using contracts entered into on the basis of equality and mutual benefit, and the principle of exchange of equal value to build stable supply and demand relationships between producing and marketing areas. Second, both the state and local governments have to take action to insure implementation of grain procurement policies. Guaranteed prices have to be used to buy up all the grain that peasants have to sell, putting an end to peasants being unable to obtain income from something of value that they possess. Third, all jurisdictions have to increase their granary capacity appropriately. They should accelerate the building of granaries and enlarge their room for maneuver in meeting requirements of a bumper grain harvest. Places having requisite conditions should encourage rural collectives and individuals to develop storage facilities to augment the shortage of state storage capacity. Fourth is perfection of the state grain reserve system, expanding the amount of grain kept in reserve. The state and provinces can set up grain reserve funds to regulate grain reserves for further protection of the interests of both producers and consumers.

**(3) Further Straighten Out Price Parity Relationship Within Agriculture and Between Industrial and Agricultural Products, Doing All Possible to Increase Peasants' Income.** The country's price relationships are not in good order now. On the one hand, price parities among agricultural products, and price parities between industrial and agricultural products are not equitable. Prices are at variance with value. The price scissors between industrial and agricultural products, which has been narrowing in recent years is growing increasingly wide again. On the other hand too much grain is sold at the state-set price, the state carries a heavy financial subsidy burden, which is bad for both producers and the state. Changing this situation requires formulation of rational

agricultural product procurement policies, the state adopting guaranteed price policies for important agricultural products. Second the burden of increase in grain sale prices has to be borne by society as a whole. While cutting back on sales or partially cutting back on sales of state price grain, fixed grain ration supply standards for city and town residents should be suitably reduced, or alternatively the straightening out of city and town staff member and worker wage relationships may serve as a basis for a gradual change to supply of grain rations for city and town residents at negotiated prices rather than state prices. Third is stabilizing prices of the means of agricultural production, handling well the price ratio between agricultural means of production and agricultural products, enabling the peasants to derive a return from increased output that is greater than their investment in production to ensure a steady year-after-year increase in peasant real income.

**(4) Develop the Superiority of the Collective Economy While Stabilizing the Family Output-Linked Contract Responsibility System, Build and Strengthen the Socialized Service System** With the development of agricultural production, particularly the development of a rural commodity economy with a steadily rising level of specialization, the peasants urgently hope that the state and collectives will build and strengthen a strong agricultural service system to provide services before, during, and after production to eliminate the various difficulties they face in the development of commodity production. The strength of collectives must be relied upon to make the most of the role of the service system. First is increased capital construction of agriculture, building basic agricultural facilities and improving ability to fight disasters, creating conditions for the expansion of reproduction in agriculture. Second is the organization and development of agriculture and foreign exchange earning agriculture, while stabilizing grain production, and increase diversification. Third is providing financial, technical and material services to the whole process of agricultural production to satisfy needs of production development.

**Predictions for Wool Output, Procurement**  
91P30127G Beijing NONGMIN RIBAO in Chinese  
8 Mar 91 p 2

[Summary] According to statistics from Inner Mongolia, Liaoning, Jilin, Heilongjiang, Gansu, Hebei, Ningxia, and Xinjiang, in 1991 gross output of wool will be 157,000 tons, the same level as 1990; supply and marketing cooperatives will procure 104,000 tons, a 10.6 percent increase over 1990. The average procurement prices per kilogram are: 5.97 yuan for first-grade improved breeds, a 31.4 percent drop from 1989; 7.30 yuan for first-grade refined wool, a 33.6 percent drop; and 5.59 yuan for unrefined wool, a 23.7 percent drop. At present, the wool spinning industry is slightly replenishing stocks, but wool purchases for the year will not

greatly increase because wool is already overstocked, woolen products are not selling, and funds are insufficient.

### Problems, Solutions to Guizhou Grain Pricing

91CE0460A Beijing JIAGE LILUN YU SHIJIAN [PRICE: THEORY AND PRACTICE] in Chinese No 2, Feb 91 pp 46-48

[Article by Xue Zhanpin (5641 0594 0756): "Existing Problems, and Tentative Ideas on Ways To Reform, Guizhou Province's Grain Pricing System"]

[Text] The chaos that exists in Guizhou Province's grain pricing system, i.e., that current grain prices reflect neither value nor supply and demand relations, is very detrimental to the development of grain production and the steady fulfillment of people's livelihood needs.

### I. Problems That Exist in Guizhou Province's Grain Pricing System

A. The price of contracted grain is too low, which makes it hard to play a role in speeding up production development and increasing supply. Low contracted prices are mainly manifested in: 1) Grain cultivation earns little net income, and in some cases, is a losing proposition. Contracted prices are basically equivalent to production costs plus taxes. Data on production costs of farm products in Guizhou Province show: taxes and production costs per 50 kilograms of long-grained nonglutinous rice was 13.40 yuan in 1988 and 17.49 yuan in 1989, or 58 percent and 75.7 percent, respectively, of the 23.10 yuan fixed price; for glutinous rice, 17.78 yuan in 1988 and 23.24 yuan in 1989, or 59.27 percent and 77.47 percent, respectively, of the 30.00 yuan fixed price; for corn, 19.10 yuan in 1988 and 22.05 yuan in 1989, or 102.14 percent and 117.91 percent, respectively, of the 18.70 yuan fixed price; for wheat, 24.91 yuan in 1988 and 31.31 yuan in 1989, or 100.85 percent and 126.76 percent, respectively, of the 24.70 yuan fixed price. Production cost plus taxes exceeds fixed prices for wheat and corn. 2) Fixed prices are obviously much lower than market prices. For example, in October 1990 at the Bijie County Grain Trading Co (negotiated and market prices being basically the same) the fixed price for polished long-grain nonglutinous rice was 33.00 yuan per 50 kilograms, 50.77 percent of the 65.00 yuan negotiated price, the 42.90 yuan fixed price for polished glutinous rice was 50.47 percent of the 85.00 yuan negotiated price, the 18.70 yuan fixed price for corn was 44.52 percent of the 42.00 yuan negotiated price, and the 24.70 yuan fixed price for wheat was 70.57 percent of the 35.00 yuan negotiated price. 3) The price ratios between grain and other cash crops are irrational. For instance, the average price per 50 kg in 1988 was 18.29 yuan for corn but 157.66 yuan for flue-cured tobacco, putting the corn to tobacco price ratio at 1:8.62. Net output value per worker was 6.89 yuan for tobacco, but only 2.01 yuan for corn, or 3.43 times more for tobacco than for corn. Net income per mu was 247.31 yuan for tobacco, but a loss of

3.65 yuan for corn. 4) The price scissors between grain, and the agricultural means of production and manufactured goods, are widening daily. For instance, while the state monopoly procurement price per 50 kg of corn was 11.60 yuan in 1980 and is now 18.70 yuan, a 61 percent increase, manufactured goods prices have risen even more. For example, the prices of goods, such as aluminum, iron, rolled steel, and ceramics, have risen two to four times, which has further widened the price scissors between grain and manufactured goods.

B. The sale price of grain is too low. While fixed grain prices have been readjusted repeatedly since 1979, sales prices have remained at a pre-1966 level. For instance, sales prices per 50 kg are 13.80 yuan for polished long-grain nonglutinous rice, or 41.82 percent of the 33.00 yuan fixed price, 16.20 yuan for polished glutinous rice, or 37.76 percent of the 42.90 yuan fixed price, 9.50 yuan for corn, or 50.80 percent of the 18.70 yuan fixed price, and 13.00 yuan for wheat, or 52.63 percent of the 24.70 yuan fixed price. The average selling prices of these four major types of grain are 44.01 percent of their fixed prices. This disparity between procurement and sales price has caused the following problems: 1) Increased subsidies have aggravated fiscal burdens. 2) It has curbed procurement price increases, because the higher the procurement price, the heavier the fiscal burden. 3) It has encouraged excess grain consumption and waste. At present, urban and rural grain waste is a severe problem. 4) It has dampened the initiative of producers, because the more they produce, the greater their losses.

C. Grain allocation prices, which are based on state monopoly procurement prices, are too low. For example, in Guizhou Province the monopoly price per 50 kilograms of polished long-grain nonglutinous rice is 24.40 yuan, 4.00 yuan in operating costs is added, the allocation price is 28.40 yuan, but the fixed price is 33.00 yuan, excluding additional costs and fixed-price chemical fertilizer awards, means that the government must lay out an additional 4.60 yuan. The state monopoly procurement price is 18.30 yuan for wheat, 2.50 yuan in operating costs is added, the allocation price is 20.80 yuan, but the fixed price is 24.70 yuan, excluding additional costs and fixed-price chemical fertilizer awards, means that the government must lay out an additional 3.80 (sic) yuan. The state monopoly procurement price for corn is 13.85 yuan, 2.50 yuan in operating costs is added, the allocation price is 16.35 yuan, but the fixed price is 18.70 yuan, excluding additional costs and fixed-price chemical fertilizer awards, means that the government must lay out an additional 2.35 yuan. In areas that ship out grain, the better the harvests, the more increased production, the more procurement, and the more grain that is shipped out, the greater the local fiscal losses. This severely dampens and curbs the grain production initiative of party committees and government organizations and leaders at all levels in grain-producing areas, and encourages dependence on grain

allocation into the area. Decreased grain production inputs by both grain-producing and grain-deficient areas, has a severe impact on grain production development and grain commodity circulation.

## II. Tentative Ideas on Ways To Reform Guizhou Province's Grain Pricing System

Guizhou's current grain pricing system seriously deviates from the objective requirements of the law of value, therefore, the goal of reform is to complete the structural adjustment of its grain pricing system, establish scientific and realistic price relations and price difference relations between grain, and cash crops and manufactured goods, enable grain prices to more sensitively reflect social labor productivity and changing market supply and demand relations, and speed up grain production and circulation.

To achieve these grain pricing reform objectives, it will be necessary to adhere to the following principles: 1) grain pricing reform must proceed in a planned and step-by-step way premised on keeping market grain prices basically stable and ensuring gradual increases in real incomes; 2) grain pricing reform must be coordinated and synchronized with grain pricing management reform.

Based on these objectives and principles, I am offering the following tentative ideas on specific ways to reform Guizhou Province's grain pricing system:

A. Reform should proceed steadily. Proceeding from the reality that the current grain pricing system is irrational, reform should proceed step by step, reform steps should not be too big, the ability of the state and consumers to assimilate each step must be considered fully, and the grain retail sales price index should be kept within proper limits. The method of taking small steps and considering each one as it proceeds should be adopted. In this way, even if certain unexpected problems arise, they can be remedied rather easily. Taking small steps means adjusting prices slightly during specific periods of time, making gradual adjustments, and achieving basically rational price levels through years of repeated readjustments.

B. Easy problems should be dealt with before difficult ones, and reform should proceed in an orderly and step-by-step way. Price reform steps that have less of a direct impact on the interests of the masses should be taken first, and reform priorities should be set on this basis. The grain pricing reform sequence should be, first solve the problem of too low fixed prices, next solve the problem of allocation prices being lower than fixed prices, and finally solve the problem of disparity between procurement and sales prices.

C. Combine adjustment with deregulation, in the transition from a dual-track to a unitary pricing system. State procurement and marketing prices should continue to be

used for grain that comes under the fixed procurement quota system and centralized marketing, and negotiated and market prices should be used for the rest. In this way, beyond-plan high prices can be used to complement low planned prices, to temporarily solve the problem of too low prices obstructing production and circulation. Moreover, along with production developments and

deepening of reform, planned prices can be raised gradually in a planned and step-by-step way, and beyond-plan prices will be able to play a role in curbing demand and stimulating supply. Combining adjustment with deregulation in the transition from a dual-track to a a unitary pricing system, will also help to coordinate grain pricing reform with management reform.

**Graduate Students Beset With Depression**

91CM0236A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 220, 16 Jan 91  
pp 70-72

[Article by Chang Mang (0594 5345): "Fears of Current Chinese Graduate Students"]

[Text] Not long ago, at the work conference on graduate education in the Guangzhou area held at Jinan University, Guangzhou, some graduate student advisors showed deep concern about their students' current state of mind. On the one hand, graduate students strive for knowledge and dreams; on the other hand, society lacks the appropriate endurance for it, and even has fears about it. This estrangement has deeply perplexed today's graduate students in mainland China.

When China opened its door to the outside world 10 years ago, intellectuals who had previously been called the "stinking ninth category" were praised as lucky; undergraduates were "very lucky," and graduate students were held in even higher regard and were seen as "the luckiest of all."

Dr. Qiu Jin [6726 6651], director of a university graduate program, was one such "favorite son." He recalls that those entering graduate schools at that time were among the best college students. They felt very proud because society recognized their talents. They looked triumphant and felt that they had brilliant prospects. Because of this, they had a strong sense of responsibility, and most worked very hard on their studies. Although they lived simple lives, they still found pleasure in their hard work. Right now they have become the backbone of China's scientific, technological, and cultural circles. Some of them hold important official posts and serve as the pillars of the country.

How about graduate students in mainland China today, 10 years later?

Currently the number of graduate students has greatly increased, more than ever before. Take Guangzhou for an example: in the Guangzhou area there are more than 3,500 registered graduate students. Ten years ago, there were only over 30 doctoral and post-graduate students at the university where Dr. Qiu works. Now there are nearly 400.

Certainly there are still some top-notch students among these graduate students. However, many of them were not outstanding undergraduates before they become graduate students. Why is this so? It is easier for outstanding undergraduates to find good jobs after graduation. Faced with society's new values, most good undergraduate students are reluctant to suffer three more years of schooling. Dr. Qiu Jin told this author that the source of new graduate students was experiencing "three more and three fewer".

More graduate students are from interior areas; more are secondary school teachers; and more are graduates from teaching schools.

Fewer students are from coastal areas where the economy is well-developed; fewer are from business firms, enterprises, or government organs; and fewer are graduates of leading universities.

In today's China, although college graduates are not paid well, they still earn more than do graduate students, who only receive stipends. The reason that graduate students are willing to spend three more hard years in school is because they still have their dreams, as well as a spirit for exploration. They want to look for proper roles in school.

As in the past, it is not easy to become a graduate student; it takes the utmost effort. Many graduate programs are very competitive. Generally speaking, in addition to a solid foundation of knowledge, students still need six months of preparation for the graduate entrance examination.

The national graduate entrance examination is held each year in February, which is just around the Spring Festival holiday season. Almost all students who have registered for the examination cannot celebrate the lunar New Year like other ordinary people. Graduate students teasingly call it "dark February."

A veterinary graduate student from an agricultural university told the author that he returned home immediately after he completed his examinations. It was just the second day of the lunar new year. A medical surgery student who entered graduate school in 1988 spent all of his Spring Festival holiday in a warehouse attic in his work unit, concentrating on his examination reviews and avoiding outside interference. A female graduate student, who entered graduate school in 1990 to study the Chinese language, looked like a little girl. However, her artistic turn of phrase conveyed her sense of release: "What do you think of my smile? Aren't my two dimples sweet to see? But you know, these terrifying exams stole away my twin babies for several months. My goodness, for three days, 180 hours, 648,000 seconds [as published], I didn't relax for a second. Thank God, I finally have my babies back."

Many people in society do not approve of these "blockheads." They think graduate students are a group who is dissatisfied with the status quo. Graduate students are often ridiculed, given the cold shoulder, or even interfered with. A graduate student of dialectology in a university's Chinese Language Department failed to pass the entrance examination four times. He could not hold his head up in the face of freezing irony and cutting satire. Yet he did not give up; last year he finally passed the examination and saw his wish fulfilled. His advisor, Professor Zhan Baohui [6124 0130 1979], a famous linguist, greatly appreciated his student's spirit.

A graduate student from Suzhou entered graduate school in 1990 to study computer science. He has already

established a warm and comfortable family. He remains aloof from the housing issue which worries most young people his age in China. Two years ago, he found an apartment with two bedrooms and a living room. For someone of his generation, he was quite lucky. Yet he determinedly gave it up, leaving behind his lovely wife and daughter to continue his studies in Guangzhou, hundreds of miles from his hometown. Why did he do this? He was quoted as saying, "I am still very close to my family. But a person should make his maximum contribution to the society. I have found that I have potential in computer science. Why not turn it into reality through hard work?"

Still, many students use graduate studies in universities as a springboard for leaving behind their original environment. They are neither willing to work as teachers, nor to work in the hinterland with low pay. They hope to find decent jobs with high pay in open cities such as Guangzhou and Shenzhen. Since there is no other way for them to find such jobs, they turn to graduate studies in universities.

Unfortunately, the dream for which graduate students traded, at high cost, has already become a very dim road.

Society now has quite a different attitude toward knowledge and diplomas than it did a few years ago. Many work units are overstaffed, and do not like going to universities to recruit new people. If you do not have good connections, then even if you submit a gold-embossed degree certificate and the best letters of recommendation, and make the trip to have an interview, you may only get a reply like "We'll consider it." Usually there will be no news at all about your application, or you will be politely turned down; you may even simply be stopped during your initial contact. Even within intellectuals' home bases—universities and research institutions—where people are poorly paid, the quota for hiring graduates is very limited. Also, it is pretty hard for advisors to keep their own students on. A graduate student who completed his graduate studies at a research institute last summer has not yet found a job. He had no other recourse but to ask the research institute to hire him as a temporary worker for a period. Several months have passed, and leaders at the research institute are still "considering" his application. They dare not decide rashly. What is even more unfortunate for some students, the Guangdong Province's Bureau of Higher Education stipulates that all students from other provinces must return to their own provinces and accept assignments there.

Graduate students cannot help but worry and wonder about their futures. All these feelings are translated into their attitudes toward studies.

A few years ago, you could see a lot of graduate students with large schoolbags milling around and waiting for the staff to open the door to the graduate reading room in the South China Normal University. They came very early and in a rush, otherwise they would not be able to find

seats in the room and would have to leave. Often graduate students were reluctant to leave at closing time, and the staff had to ring the bell several times and repeatedly urge them to leave. However, such a scene is hardly seen now. There are few people in the reading room, and the staff do not have to urge readers to leave. Often there will only be the staff themselves left in the reading room when it is about to close.

In Jinan University's library, if a graduate student meets another graduate student he knows, he will say, "Well, I really didn't expect you to be in the library too." Graduate students seldom go to the library. Some of them only go to the library two or three times a semester.

When this journalist knocked at the door of a graduate student apartment, seven graduate students were seen sitting (or standing) around a table playing mahjong. The players were really involved in the situation. The onlookers were the same as the players. It is said that dancing, dating, and playing mahjong, poker, and chess are the most common ways to kill time. No matter what time it is or which school you are at, if you are interested, you need not worry about finding opportunities to see the "cool" image of today's Chinese graduate students, with their free, unfettered lifestyle.

Mr. Liu [0491], a graduate student in mathematics, said cynically, "Even though you have excellent scores, even though your theses are of a very high quality, if you do not have connections, they are nothing. Why torture yourself? Just get through it. That's all." A graduate student advisor said emotionally, "I require my graduate students to publish three papers a year. Graduation is almost here and I have not even seen a word."

There are still some graduate students who study hard and achieve things. Mr. Zong [1350], a graduate student in Chinese, published several papers in some national journals. Now he is writing a 200,000-word book on interpersonal relations. Although he repeatedly complains about the low payment he received from his publications, you can still see that his quite happy about his academic achievements.

Graduate students are among the higher level citizens. Most are still very concerned about politics. The most-watched television program is the evening news. State and international affairs are eternal topics in their never-ending complaints and academic talks.

Although graduate students look cool and carefree, most of them only have a little money to spend on leisure activities. The graduate student stipend is around 100 yuan, which cannot cover anything but food expenses in Guangzhou. Unlike undergraduate students and non-degree students, graduate students seldom ask for help from their parents. Some even have to support their own families.

Mr. Chen [7115], a graduate student in new mathematics, is from Sichuan Province. He told this author, "My wife has lost her job for a while. We have a child.

When I worked for my work unit, we could get by, but now I am a graduate student and my stipend only covers my own living expenses. I'm so worried about the eight square meter apartment where my wife lives. The unit where I worked has given her an ultimatum, asking her to move out by the end of the year. Sure, since I've left, it's fair that the apartment should be turned over to the unit. However, I have no way to find a new apartment; neither my parents nor her parents can help us. A few days ago, I received a letter saying that my wife has been ill for a couple of days..." When he spoke about this, he started to choke with sobs. He begged the author, saying "You have many acquaintances. Can you help me find a job?"

Of course, there are not many graduate students in such an awkward situation. However, there are not many graduate students who do not worry about their economic difficulties.

Not every graduate student is a pauper, however. Some with strong social abilities can make it by using the various connections they have. Others can teach in night schools or train employees for business firms. Still others even start up their own classes or open small businesses. These are only some examples of how graduate students make their fortune.

Mr. Zhang [1728], a graduate student in foreign languages, taught English in the Guangdong Baojie Corporation. They paid him 20 yuan an hour. It is said that over the past two years he has saved more than 10,000 yuan. Some graduate students drop out to accept high-paying jobs when they are moonlighting. This sort of situation has caused a sensation inside China. Others are dismissed by school because they have no intention of studying. No matter what kind of situation they are in, the destinies of those who drop out in the middle of their studies are not bad compared with the destinies of those who work hard and successfully defend their theses. Those who dare to drop out at least show a strong ability to adapt to society. A doctoral student gave up in the final stage of his studies. His classmates said he benefited from his misfortune. Now he has an important position as an assistant manager in a big company.

Some graduate students place their hopes on studying abroad. However, the quota for government-sponsored study is very limited and the selection process is fairly strict. Thus they do not expect much in this regard and have to look for alternatives from privately sponsored sources. As a result, those with overseas connections take full advantage of them, and those who do not have to work hard on the Test of English as a Foreign Language.

A person in charge of a graduate school maintains that only a small number of graduate students who have completed their studies have an aggressive spirit. There are very few graduate students who are really creative and original. Most put their own immediate interests first. They think about salaries, housing conditions,

spouses, and going abroad. In order to get better treatment, they do not care about jobs unrelated to their professional majors. Although work units are biased against postgraduates, it is generally true that people holding advanced degrees may not have advanced abilities.

Obviously, those concerned have already paid attention to various problems among graduate students. Why are so many work units unable to recruit the advanced professionals who have been trained by the state at great expense? Is society really saturated with talented personnel? No. According to statistics from the United Nations Educational, Scientific, and Cultural Organization [UNESCO], in the United States, on average there are 530 college students for every 10,000 people; in China the figure is 19. On average, there is only one technician for every 160 township enterprises in China. In the United States, Japan, the Soviet Union, and China, the proportion of advanced technicians in the total work force is 38 percent, 32 percent, 29 percent, and 2 percent respectively.

China's current education system seems to pay more attention to training qualified personnel, but it does not care about using and protecting such personnel after graduation. Moreover, the current education system obviously cannot adapt to the demands of today's economic development. Many work units have responded that postgraduates are not that much more capable than graduates from colleges or vocational schools. In light of this, current graduate school education can be relatively improved only after these problems are substantially resolved.

Presidents and professors in charge of graduate programs in China believe that the starting point for countering graduate students' problems is to improve their ideological education. Professor Rao Pengzhi [7437 5338 1311], vice president of Jinan University, believes that graduate students must receive patriotic ideological education. Graduate student advisors should use education about Chinese culture, the history of Chinese scientific and technological development, and national feelings to change and influence graduate students unobtrusively and imperceptibly.

Professor Li Baojian [2621 1405 1696], associate dean of the Graduate School at Zhongshan University, thinks that we should combine the national condition, history, theory, and practice, and take advantage of advisors' special status in order to cultivate students' spirit of devoting themselves to the motherland. Advisors can do this through personal example as well as through verbal instructions.

Graduate students' own factors also contribute to the present situation. Thus it is necessary to strengthen graduate student education. However, if we do not actively arrange certain ways out for this group of advanced intellectuals, more "education" will be equated with empty talk. At this point, isn't society to blame for this?

**Troops Train for Nuclear, Chemical Attack**

91P30129D Beijing JIEFANGJUN BAO in Chinese  
11 Mar 91 p 2

[Photographic report by Xupan Mintong (1776 3382 3046 6639): "After a Nuclear, Chemical Attack"]

[Text] At 1300, it was all quiet at the foot of Qinglung Shan. Suddenly, the emergency alarm sounded at the barracks of a certain chemical defense regiment of the Nanjing Military Region, signaling that the "enemy" was carrying out a nuclear and chemical attack on our "forward territory." Our troops immediately deployed in a combat-ready posture: Command organs quickly went under concealment and urgently arranged an emergency operations plan; reconnaissance fendui, braving thick smoke, rushed to the contaminated area to carry out investigation and gathering of samples, and to verify the contamination situation; decontamination fendui spray trucks loaded with decontamination agents washed down the roads, bridges, artillery, and armored vehicles; the infantry fendui following behind attacked "enemy" positions... This was a near-real combat exercise for defense against nuclear and chemical attack organized by this regiment and held in the first week of February. This exercise required 40 minutes from beginning to end. It showed the professional rapid response capability of these troops.

**Photo Captions**

1. (top photo) After the decontamination, the infantry attacks "enemy" positions.
2. (inset right) Washing down the contaminated artillery and armored vehicles.
3. (bottom photo) After the nuclear and chemical attack, the reconnaissance fendui obtain samples for analysis of the contaminated area.

**2d Artillery's Launch Test Vanguard Company**

91CM0354A Beijing JIEFANGJUN BAO in Chinese  
19 Feb 91 p 1

[Article by Chen Dechun (7115 1795 2504) and Dong Yang (5516 2254): "The Path of the Vanguard" "Notes on the Second Artillery's Launch Test Vanguard Company"]

[Text] "The path to heaven is a perilous undertaking." Six years ago Deng Xiaoping, then chairman of the Central Military Commission [CMC], placed this type of challenge in front of the officers and men of the 1st Company when giving instructions for the organization of this special unit. During the following six years, the officers and men of the 1st Company stuck to the song "five types of revolutionary spirit" while enduring the elements and climate extremes. Not only did they fully complete their testing and training missions for the new strategic missile weapons in harsh climates but also successfully launched nine of these missiles. The unit

was awarded the glorious title of "launch test vanguard company" by the 2d Artillery.

**Freezing Cold and Fiery Heat Sharpen the Sword**

The 1st Company and its parent regiment were organized to test the all-weather combat capabilities of new missile weapons. They seized every minute and second in developing plans which enabled this newly hatched fledgling to confront the harsh cold and oppressive heat.

In the coldest days of winter on the motherland's most northern snow-covered plain, an equipment truck quickly deployed its cargo for a test in a temperature of -47°C. The officers and men of the 1st Company were wearing all available clothing and had stuffed their high-top boots stuffed with three layers of felt while they stood out in the blowing snow. Soldier Wang Yanzhu [3769 1484 2691] was responsible for linking up the electronic firing system in the missile's instrument compartment. The cumbersome fur-lined overcoat he was wearing made it impossible for him to squeeze into the narrow instrument compartment. Wang quickly pulled off his fur hat, gloves, and fur-lined clothing; he entered the instrument compartment wearing only a sweatshirt. After an hour of work, the severe cold had made his face as white as paper and his entire body was trembling. The veteran soldiers from the Ministry of Aeronautics and Astronautics at the location gathered around and held Wang tightly to their bodies.

During the midsummer heat at a place in Jiangnan known as the fire pan, the mercury line on the thermometer in an equipment truck under the scorching sun hovers around 50°C and reaches 58°C at noon. Here the boiling hot cement bakes the rubber soles of shoes and a spilled bucket of water boils up into a cloud of mist. Perspiration quickly soaks the work uniforms of the officers and men, drips to the ground, and turns into white spots of salt. Exposure to the sun for four hours each day caused six soldiers to pass out from the heat. They were taken to a shaded area by fellow soldiers; when they revived, they immediately returned to their posts.

Testing, testing, and more testing. In just several short years, the officers and men of the 1st Company endured all types of harsh environments and left footprints all over 11 provinces and regions. They traveled 270,000 kilometers and completed 11 major surface tests that provided leaders of the Ministry of Aeronautics and Astronautics a great amount of data.

**Achieve Results This Way**

When the new type guided missile was ready to undergo launch testing, Company Commander Yang Xuelin [2799 1331 2651] represented the entire company when he requested an assignment from the missile developers that made the eyes of the experts show puzzlement: The launch must be a success, it cannot fail, this will show

that the young 1st Company is performing well. Company Commander Yang is not a rash man. This confidence is founded on their strong training foundation. From the day the company was established, their training has followed the drumbeat of the 10 specialties in the three major systems.

What type of training is this? There were no teaching materials, the officers and men used several notebooks made from earlier trips to military plants and a few pages of equipment operating instructions to scrape together and write their own teaching materials. There were no classrooms; the soldiers used bricks as stools and their knees as desks while studying on hills and slopes.

Sharpshooter Yang Jiaye [2799 0502 2814] practiced his trade in the wind, rain, fog, snow, bright sunlight, and at night. He practiced until his eyes ached and he reduced greatly the time needed for aiming.

Controller Hou Yuehua [0186 6460 5478] was confronted with four operational rules and regulations manuals that were as thick as bricks, over 800 pieces of technical data, 200 verbal orders, and over 500 different technical actions to perform during operations. "It was like chewing up pieces of iron and swallowing them." He trained and became a knowledgeable person in the eyes of the experts.

The special examination began. The officers and men of the 1st Company and experts from the Ministry of Aeronautics and Astronautics sat across from each other at a long table. Questions and answers went back and forth, and during more than an hour of this the experts were constantly amazed that the young soldiers were so skilled in the actual operation and theory of the new guided missile, and also that they had developed over 500 technical safety measures for use during launching.

The officers and men of the 1st Company want to report to the motherland and the people. "Raise! Aim! Ignition! Blastoff!" This is followed a moment later by good news from the target range over the horizon. The accuracy of this guided missile is better than any missile that preceded it, and has even exceeded the expectations of its designers.

The chairman of the CMC sent a congratulatory message calling the 1st Company a combat effective unit.

From this time on the stubborn soldiers did not do any launchings without the 1st Company; they even sternly held on to the condition that "not one of the operators could be changed."

#### **The Path of the Vanguard—The Path of Sacrifice**

Difficult sacrifices act as a tribute. Ever since the 1st Company was organized, its officers and men have traveled about throughout the entire year to ensure the successful flight of the new guided missile. Twenty-four members gave up normal home leave, 11 new bridegrooms on their honeymoons received early departure

orders, and when 17 had serious problems at home, they put off the needs of their distant family members.

Current Company Commander Wang Xinchun [3769 2450 2504] is looked on by the soldiers as a Liang Sanxi [2733 0005 0823]. He has not lived at home during four years of marriage, his wife has raised their children in the thatch-roofed house of her parents. One year, when his wife was in a month of confinement following childbirth, Company Commander Wang accompanied the unit on a trip to carry out duties during flight testing of the guided missile. During this time his four mu of mature wheat went bad because there was no one to harvest it.

The father of 2d Platoon leader Hou Hancai [0186 3352 2088], a member of the Old Red Army, has been paralyzed for four years. When superiors learned that this veteran did not have any children at home to take care of him they immediately reassigned Hou Hancai to his home area. After his reassignment procedures had been completed, thoughts about his testing duties still played on Hou's mind. He went to the firing range in an unofficial capacity and acted as a controller to personally launch a missile before reporting to his local area.

Not regretting hardships and staying to one's chosen course. This describes the officers and men of the 1st Company. In following the path of the vanguard, how can they not proceed along a course of having a pure heart and love for the Republic?

#### **Book on Military Role in Korean War Summarized**

*91CM0281A Hong Kong TANGTAI  
[CONTEMPORARY] in Chinese No 62, 2 Feb 91  
pp 16-17*

[Article by Guo Jian (6753 1017): "Human Flesh as Cannon Fodder, 4th Field Army Crippled—Han River Blood Exposes the Blind Leadership of Mao Zedong"]

[Text] After the United States discovered that large contingents of the Chinese Communist army had entered Korea, they called for cease-fire negotiations in the United Nations. Peng Dehuai, out of military considerations, was hoping that his troops would have an opportunity to regroup and get reinforcements. He recommended a cease-fire to Mao Zedong and even stated that it might be advisable to pull back about 20 or 30 kilometers in order to build a strong defense line and be nearer to rear supplies. Mao felt that the United States had called for a cease-fire because they no longer had the strength to fight on, so he issued a stern order to Peng to advance full speed ahead. Peng was forced to throw tired troops into combat.

#### **The Communist Army's "Week-Long Offensives"**

On 31 December 1950 the front line of the Volunteer Army launched an offensive in hopes of destroying the enemy's front line defenses in a single campaign. South Korea's 1st, 2d, 5th, and 6th Divisions alternately fought

and retreated in a planned manner and their main forces were not damaged. They retreated across the Han River and abandoned Seoul. The U.S. Army carried out a mechanized retreat under air support. The Chinese Communists pursued all day, suffered great losses to air raids, and became exhausted. On 7 January 1951, the Volunteer Army's ammunition and food had just about run out so they stopped along the Inchon-Chipyong-ni-Hoengsong line, where the third campaign came to a conclusion.

The U.S. commander, Ridgway, noticed after several battles that the offensives of the Chinese and Korean Armies never lasted longer than seven days, from which he deduced that the Communists' combat troops on the front line, without any supply lines, had to carry their own ammunition and food. He called these the "week-long offensives." Ridgway took advantage of the opportunity afforded by the Communist troops' urgent need to rest and resupply after the third campaign by launching a counterattack. Peng Dehuai was forced to sound the drums for a fourth campaign before he had intended to.

On 27 January 1951, the U.S. troops along the western front launched a fierce attack and chased the Chinese and Korean troops back across to the northern bank of the Han River, while the 38th Group Army was trapped in a bitter battle to the south of the river. On 11 February, the main force of the Volunteer Army hurriedly assembled and struck back. Three-and-a-half divisions, including the 115th Division, surrounded one-and-a-half enemy regiments at Chipyong-ni and attacked for two days without defeating them. When an all-out counterattack also proved fruitless, our troops retreated back north of the Han River and set up for a defensive. The U.S. Army launched a fierce attack on the 19th against China's 42d and 66th Group Armies as well as the 2d, 3d, and 5th Korean Army Groups. The Communist troops did not have enough food or ammunition, lost many men, and were extremely exhausted. They abandoned Seoul on 14 March and retreated step by step. Chinese reinforcements (the 3d, 9th, and 19th Army Groups) arrived on the 31st and the two sides came to a stalemate along the 38th Parallel. That was basically how the fourth campaign went.

The two bloody Han River campaigns were the first full-fledged confrontations between the main forces of China and the United States, and each side fought on both the offensive and defensive. The heroism, tenacity, and revolutionary determination of the Volunteer Army and the lethal power of the modern combined military tactics of the U.S. Army were both fully demonstrated. *Han River Blood* relies upon the facts to reveal the laws of warfare.

The focal point of the U.S. attack was along the western front. The Chinese 50th Group Army and the North Korean 1st Army Group had lost too many men and retreated to the north bank of the Han River to regroup. The 38th Group Army remained on the south bank of

the Han River to hold the bridgehead, cut off communications between the eastern and western groups of the U.S. Army, provide cover for the massing of troops, and coordinate with counterattacks by Communist troops along the eastern front. The key to the success or failure of the fourth campaign lay in the ability of the 38th Group Army to defend the Han River. Because the main force had retreated, the U.S. Army pressed in from three sides, and the 38th Group Army fought with its back to the water. The situation was dire, and commander Liang Xingchu [2733 5281 0443] handed down an order to fight to the death. The 114th, 113th, and 112th Divisions resolutely carried out the order.

On the eve of the Chinese Lunar New Year, the 34th Engineering Regiment of the 114th Division marched across miles and miles of mountains to arrive at the Yanyueshan battle site. By the time the 2d Battalion was hurriedly digging out some defense works, the U.S. Army had already fought its way to the front lines. A few mortar rockets were up against 50 tanks. In five minutes an entire reinforced platoon had been annihilated. Only one injured soldier managed to retreat. The regimental political commissar, Wang Peili [3769 0012 4409], angrily slapped the injured soldier in the face, called him a coward, and gave stern orders to the 2d Battalion to hold on to Yanyueshan. A few hours later, the 2d Battalion, having suffered severe losses from artillery fire, abandoned the dead bodies of their fellow soldiers and retreated to the second line of defense. The 1st Battalion of the same regiment was defending Hill 350, which controlled a pass through which an important route to Seoul ran. The 2d Company held the site until only three soldiers remained. A certain regiment from the U.S. 1st Cavalry Division, under the cover of 50 howitzers and 50 tanks, attacked Hill 350. With only 100 men left, the 34th Engineering Regiment's commander Sun Hongdao [1327 3163 6670] requested assistance directly from the group army commander, but Liang Xingchu would not use his reserve troops. Instead, he ordered Sun to defend the site for two more hours. The U.S. Army used tanks, artillery, infantry, and air support in a combined attack on Hill 350. Battalion commander Cao Yuhai [2580 3768 3189] was killed in battle. When at last one reserve platoon was dispatched to the battle, all of its several dozen men were killed in a burst of bombing and strafing by U.S. aircraft. Before 1500 in the afternoon the 34th Engineering Regiment had disappeared and Hill 350 was lost.

#### General Commander Lin Would Never Have Used the 38th Group Army That Way

By 25 January, the 112th Division had already endured more than 10 days of pitched battle and had lost nearly half its men, while the 113th Division which had come in reinforcement had also suffered heavy losses. At Hill 350, the main focus of the battle, they were still holding out against an assault by the U.S. 24th Division, the 1st Cavalry Division, and England's 27th Brigade. The heavy casualties prompted the officers and men of the 38th Group Army to remark angrily, "Do the people

upstairs even want the 38th anymore? Do they want the main force of the 4th Field Army completely killed off? General Commander Lin would never have used his troops this way. Do they want all the key men killed?" But there was nothing Liang Xingchu could do. Even though he was almost completely out of ammunition and food, he was not allowed to retreat. His only choice was to order each of his regiments, battalions, and companies to choose one commander whose life would be saved so that even if the entire group army were to disappear, there would still be something to rebuild with.

On 24 February the 1st Battalion of the 335th Regiment was wiped out. The 3d Battalion was thrown into the battle and was wiped out within an hour. Regiment commander Fan Tianen [5400 1131 1869] requested in vain assistance from the 112th Division, then took his plea directly to Liang Xingchu. Liang had no troops available. The previous day he had even sent his reconnaissance company into battle and had seen it wiped out. When he saw that even a sentry company from the 335th Regiment had been sent into battle, Liang was compelled to transfer a battalion from the 114th Division. Hill 350 was pounded every day by 2,000 rounds of grenades and 3,000 rounds of mortar. Where a verdant forest had once stood, nothing but a barren hilltop was left. When a battalion from the 341st Regiment arrived on the run from 40 li away to reinforce the defenders, Liang Xingchu called upon them to hold the position for three days. Two days later, after this battalion had been nearly wiped out, division headquarters dispatched the entire mountain artillery battalion to the front lines. The artillery men did not have guns. Each man carried nine hand grenades and assaulted Hill 350. Fan Tianen issued the order, "When the grenades are gone, throw stones." Within an hour the entire artillery battalion had been wiped out. If the 38th Group Army had been totally annihilated, every level of command was prepared to defend the position to the death. Early in the evening of the 16th, a telegram arrived from General Headquarters proclaiming the eastern front counterattack a success and informing the 38th Group Army that it could retreat, but the 4th Field Army's ace in the hole had already been crippled.

With the 38th Group Army protecting his right flank, Peng Dehuai ordered the three group armies and the three Korean army groups on the eastern front to launch a counterattack, but mistakes in maneuvering the troops arose from several causes, including inadequate preparations, erroneous intelligence assessments, and indecisiveness on the part of Peng Dehuai in choosing the main point of attack. After a minor victory in Hoengsong on 13 February, the forces began to underestimate the enemy. Before the 116th Division had properly prepared for sniping, the 115th, 119th, and 126th divisions attacked Chipyong-ni. Because the three divisions belonged to different group armies (the 39th, 40th, and 42d), the attack was not coordinated. The 36 cannon worked independently of each other, and troop strength and firepower were never concentrated upon a single

breakthrough point. Chipyong-ni was defended by the 23d Regiment of the U.S. 2d Division and Monclair's French battalion, who deployed a tank company to the perimeter and used three infantry battalions to hold a six-kilometer circular line of defense. The U.S. artillery was very strong. Four howitzer companies, one highly mechanized company [gaojilian 7559 2623 6647], and 50 mortar launchers threw out a dense curtain of fire which protected their soldiers in pillboxes, communications trenches, and mine fields. The battle was at its most furious on the night of the 14th. The 119th Division attacked but failed to capture Hill 228, and briefly took Fengweishan before being driven off by enemy artillery. The enemy artillery on the two hills posed a great threat to the Communist Army. In the early morning hours of the 15th, the 115th Division made an all-out charge and broke through the enemy defense perimeter. The U.S. Army threw all of its reserve forces into the battle to hold the second line, launching more than 20,000 rounds of artillery through the night. The Communist Army only had small-caliber mortar launchers and relied entirely on human wave assaults. The men stepped over their comrades' dead and injured bodies as they advanced toward the curtain of fire. After dawn broke, U.S. aircraft controlled the battlefield, and the Communist Army retreated from Chipyong-ni with hundreds of dead. According to U.S. military statistics, there were 2,000 corpses along the front. Forty years later South Koreans dug up great numbers of Volunteer Army corpses during a construction project and returned them to China for proper burial.

#### Peng Dehuai Races Back to the Capital and Barges Into the Palace

The 13th Army Group was originally part of the 4th Field Army, and the 38th Group Army in particular was a crack unit which Lin Biao had led personally. Although Peng Dehuai had been a marshal in the 1st Field Army, he had started out as a regular soldier and cared deeply about keeping the men alive. He by no means looked with indifference upon the loss of life in this campaign simply because he had not been in the 4th Field Army. Mao commanded the campaign from far away; Peng could not even decide the time or place of a battle. Only when the troops had suffered severe setbacks and it became impossible to carry out the original plan could Peng call in his troops and reduce losses.

As a result of the fourth campaign, the 38th and 42d Group Armies lost all combat strength. The 39th and 40th Group Armies had also lost many men and were extremely exhausted. Faced with an enemy that enjoyed an absolute firepower advantage, our Army always countered with the advantage of troop strength, but by this time we did not even have the advantage of numbers, so Peng Dehuai had to go back to Beijing and see Chairman Mao.

Mao Zedong had long before established his absolute authority throughout the entire party and military. Not even the highly respected General Commander Zhu; the

number-two man in the party, Liu Shaoqi; the head of the government, Zhou Enlai; or the man with the most outstanding war record, Lin Biao, dared to disagree with Mao to his face. On this day, however, for the sake of the survival of hundreds of thousands of soldiers at the front lines, the great General Peng stormed through the palace gates uninvited, woke up Mao, and pointed out his mistakes to his face: "The 13th Army Group doesn't have enough ammunition or food, and it has big transport problems. Right from the beginning I wasn't in a hurry to cross the 38th Parallel to get the upper hand politically and militarily, but you ordered us to take the offensive and forced the troops to advance 100 kilometers. You wanted to win a quick victory, but it just can't be done." Peng reminded Mao not to underestimate the enemy, that the enemy could rely on its superior firepower to defeat a larger number of troops, and that it was impossible to inflict a large-scale defeat on the modern U.S. Army. Mao gave shifty answers, used a lot of jargon, and refused to admit his error. In the end he agreed to

transfer nine group armies from three army groups from the 2d Field Army and the 1st Field Army to the battle.

#### **The Future of the Third Part of *Black Snow* Is Uncertain**

Mao Zedong insisted on his strategy of relying on superior numbers in the fifth campaign to destroy the enemy's main force. He wanted to use 12 group armies to swallow up three U.S. divisions, three brigades from Britain and Turkey, and two divisions from South Korea in a single gulp. Mao continued to underestimate the combat strength of the modern U.S. Army and caused huge casualties among our soldiers. Part three of the *Black Snow* series recounts the fifth campaign. In July 1990, JINGJI RIBAO reverted to the jurisdiction of the State Council. It is not known whether part three, which was set to be issued by this publishing house, will see the light of day.

## EAST REGION

### Shandong Meeting Reviews Pornography Purge

SK2503005991 Jinan Shandong Provincial Service  
in Mandarin 2300 GMT 23 Mar 91

[Text] Persisting in the socialist orientation, strengthening management in line with law and promoting the prosperity of press and publication undertakings were the central topics for discussions at the provincial meeting of publication bureau directors which ended on 22 March.

At present, 14 cities and prefectures in our province have established press and publication management organs and successfully exercised their administrative functions. Last year, the whole province investigated and banned more than 1.8 million copies of contraband books and periodicals, investigated and handled more than 60 illegal activities on making and selling pornographic publications, and completed the work of curtailing and consolidating book, press and periodical units and reporters' stations. Last year, 15 publishing houses across the province published a total of more than 2,300 kinds of books, of which more than 260 kinds received outstanding book awards at and above the provincial level.

The meeting determined that continued efforts should be made this year to deeply implement the central policy on grasping consolidation with one hand while grasping prosperity with the other hand, focus work on upholding the socialist orientation, strengthen management in line with law, and promote prosperity in press and publication undertakings. It is necessary to unwaveringly launch struggle against pornography and illegal publications, strengthen regular management over publishing, printing, and distribution units in line with the law, attend to prosperity of press and publication undertakings, and successfully organize and formulate the Eighth Five-Year Plan for invigorating Shandong Province's press and publication undertakings. Efforts should be made to realistically carry out activities on trying to meet the standards of civilized book and periodical markets and to strengthen copyright management work.

### More Shandong Young People Emerging as Family Heads

OW2303044191 Beijing XINHUA in English  
0224 GMT 23 Mar 91

[Text] Jinan, March 23 (XINHUA)—The ancient tradition of the eldest having the final say in families is gradually changing in the rural areas of China.

Wang Ziyin, a young farmer of Qianbo village in Qishui county, Shandong Province, is the head of his family although he is only in his twenties. He is a graduate of an agricultural technology school.

Wang first changed his father's traditional way of farming by means of science. The grain production per

mu (15 mu to a ha) in his family has increased by over 50 kg a year compared with the time when his father was in charge of the family's farm.

At the same time, he has also taught his family members to raise rabbits and plant hothouse vegetables that have greatly increased the income of the family.

The numbers of such families are increasing in Chinese rural areas. According to state statistics, about 70 percent of the rural families are headed by young people.

In the past, there was a saying: "When a woman becomes the master of a family, the house collapses." But now there are more and more women heading their families.

Su Yizhen, a middle-school graduate in Lincheng town, Qufu City, Shandong Province, is the head of her family. She assigned her parents-in-law to be in charge of pig raising, her husband's sister to raise silkworms, and herself to do sewing work with an apprentice.

In nearby Shuyuan town there are 119 economic bodies and 589 households specializing in certain trades, headed mainly by women.

Experts hold that the new practice of the old handing over authority to the young in rural families is a new change brought about by the economic reform and open policy of the past dozen years.

In the past, the main occupation in the countryside was farming. But nowadays more industry and trade are emerging in the rural areas. So young people, who have more education, are coming to the fore in their communities.

## CENTRAL-SOUTH REGION

### Intellectual Party Members' Superior, Inferior Qualities

91CM0266A Beijing ZHENLI DE ZHUIQIU  
[PURSUIT OF TRUTH] in Chinese No 1, 11 Jan 91  
pp 24-25

[Article by Tang Bingren (0781 4426 0088), Luo Xiaofan (5012 1420 0416), and Liu Pusheng (0491 2528 3932), members of the Organizational Department of the Hunan Provincial Party Committee: "The Advantages and Disadvantages of Intellectual Party Members With Regard to Cultivating Party Spirit"]

[Text] In cultivating party spirit, intellectual party members enjoy advantages, but also face disadvantages.

I. The mastery of cultural and scientific knowledge is an advantage for intellectual party members with regard to cultivating party spirit. To cultivate party spirit, it is first necessary to study Marxist theory. Marxism is a broad, profound revolutionary theory created by Marx and Engels that sums up the achievements of several thousand years of human civilization. Only by mastering the rich, outstanding cultural achievements accumulated in

human history is it possible to understand Marxism deeply. It is exactly in this sense that Lenin said, "Only by enriching one's mind with the treasures of all the knowledge created by mankind is it possible to become a communist" (*Selected Works of Lenin*, Vol 4, p 348). The mastery of culture and knowledge is the necessary condition for studying Marxism. Mao Zedong once said, "Without education, it is not possible to study and absorb the theory of Marxism-Leninism. Having acquired education, it is possible to study Marxism-Leninism at any time" (*Selected Works of Mao Zedong*, Vol 3, p 776).

Intellectual party members are the part of the party membership with higher levels of cultural and scientific knowledge. They can use the cultural and scientific knowledge at their disposal as foundations and instruments for systematically studying Marxist theory. At the same time, their professional practice is also favorable to accepting Marxism. The professional practices of intellectual party members engaged in natural science research and technological development orients them towards the materialism and the dialectics of nature in natural science. This is an advantage for them as they try to further establish the dialectical, materialist world view and the ideological line that seeks truth from reality. As for intellectual party members engaged in social science research and social management, their exploration of the concrete laws in specific spheres of social development is also helpful in mastering historical materialism. Therefore, the professional practices of intellectual party members provide a good foundation for them to study and master Marxist theory and to establish a scientific world view.

II. Individual labor is a disadvantage for intellectual party members with regard to cultivating party spirit. Their individual labor often makes intellectual party members unable to understand and handle correctly some important relationships:

The first is the relationships between the individual and the masses, and between the individual and the organization. Because they are engaged mainly in individual mental labor, intellectuals tend to intuitively regard every achievement of labor as "their" achievement, unilaterally emphasizing the role of the individual and demonstrating a strong sense of the self. This has positive significance for cultivating independent and original thinking, for increasing the degree of freedom in thinking and for performing creative thinking, but for this reason it tends to result in a disregard for the constraining role of social and historical conditions on an individual's creative work, and in a disregard for the dialectical links between the individual and the masses, the individual and the collective, and the individual and the organization. Thus it hampers the establishment of the idea of collectivism and the cultivation of a sense of social and historical responsibility, while unilaterally exaggerating an individual's ability, contribution, value, and interests. Such a one-sided view is unfavorable to cultivating the proletarian party spirit.

The second is the relationship between theory and practice. Intellectuals engage in individual mental labor, performing rational thinking amid contradicting and changing concepts. This is the process of spiritual production governed by law, and is most necessary and beneficial to the progress of social civilization. However, such labor tends to result in a disregard for the determinant role of perceptual practice, and in a disregard for the significance of objective reality as the source of theory. Some intellectuals emphasize theory but make light of practice, ignoring the fact that all theories originate from practice and are reflections of objective reality. Thus when deliberating issues and handling contradictions, they proceed from subjective wishes or bookish dogmas, instead of from objective reality; this almost inevitably leads to the mistake of dogmatism. Dogmatism is a demonstration of the subjectivism which divorces theory from practice, and has on many occasions brought grave harm to the Chinese Revolution. Mao Zedong called it "an archenemy of the Communist Party, an archenemy of the working class, an archenemy of the people, an archenemy of the nation, and a sign of impurity in party spirit" (*Selected Works of Mao Zedong*, Vol 3, p 758).

The third is the relationships between ideals and reality. Ideals are based on reality, and also on the spiritual negation and transcendence of reality. Ideals are the spiritual pillars of human life, and the goals and motivating force behind people's advancement, while reality is the starting point or objective basis for realizing ideals. Communists have Communism as their long-range ideal, and persistently strive for that ideal, not content with the status quo for a single moment. Yet, on the other hand, Communists proceed strictly from reality, and make reality the basis for deciding lines, policies, and plans of action for realizing their own ideals, opposing utopianism and adventurism as well as the indiscriminate observance of existing practice. Such is the dialectical unity between the critical revolutionary spirit of Communists and the approach of seeking truth from reality. However, because of the individual nature of intellectual party members' labor, some of them tend to be divorced from the masses and from reality; as a consequence, ideals are taken as reality, and reality is idealized, resulting in an underestimation of the arduous and long-term nature of efforts to realize ideals. When many contradictions and difficulties are found in reality; when the road towards ideals is found to be difficult and full of obstacles; and when there are great gaps between ideals and reality, then instead of proceeding from reality to face contradictions, overcome difficulties, and transform reality, intellectuals waver about Communist ideals and convictions, and succumb to difficulties in reality. As a result, zealotry turns into pessimism, a lack of indomitable and persistent revolutionary willpower in revolutionary struggles, and a periodic demonstration of certain frailties and tendencies to waver. This is also incompatible with the proletarian party spirit.

Certainly, individual labor does not necessarily lead to the weakness or deficiency of being divorced from the

masses, from practice, or from reality: it only provides such a possibility. The possibility would become reality only under a condition of a loss in self-consciousness. Intellectual party members, in cultivating party spirit, should face their own weaknesses, overcome their own blindness, and enhance self-consciousness.

We should utilize intellectual party members' advantages of having cultural and scientific knowledge and of relying more

on rational thinking. We should give full play to the positive role of individual labor which is favorable to spiritual creation and thereby indirectly favorable to cultivating party spirit, and overcome the likely negative influence of such labor might have on cultivating party spirit. These, along with correctly handling the several important relationships stated above, are the main direction of attack and the basic task for cultivating the party spirit among intellectual party members.

**Editorial Assesses National Construction Plan**

*91CE0441C Taipei CHING CHI JIH PAO in Chinese  
1 Mar 91 p 2*

[Editorial: "Implementing the Six-Year National Construction Plan"]

[Text] Both Premier Hao Po-ts'un, president of the Executive Yuan and Chairman Shirley Kuo of the Economic Planning and Development Council have held several public briefings on the Six-Year National Construction Plan. Premier Hao Po-ts'un has emphasized the forward-looking, flexibility and programmatic nature of the plan. Chairman Kuo has added that the plan is comprehensive and balanced. Although the plan needs to be improved in the area of coordination, what we are most concerned with is its implementation. Let us elaborate this point.

After putting together what Premier Hao Po-ts'un and Chairman Shirley Kuo have said about the plan, we are convinced that not only must the formulation of the plan be closely related to its execution, but specific items in the plan should also be reexamined and revised based on objective conditions.

1. Since the Six-Year National Construction Plan is "forward-looking," it must have a forward-looking goal. While the goal is achievable in the future, the plan itself must be reviewed and revised all the time. For example, at the beginning of America's moon-landing project, the forward-looking goal was landing a man on the moon because they thought it was achievable in the future. After the program was launched, however, it was discovered that if they followed the original plan, they would not be able to achieve the set objective. Only after it was revised time and again did Neil Armstrong turn the goal into reality with his "one small step." This historical experience shows the importance of being forward-looking, but it also fully demonstrates the spatial and temporal dimensions of being forward-looking. Therefore we are convinced that the repeated emphases by Premier Hao Po-ts'un and Chairman Shirley Kuo on the forward-looking nature of the plan will be shared by both the government and the public, through reasonable communication.

2. As Premier Hao Po-ts'un said, the Six-Year National Construction Plan is programmatic. The plan consists of as many as 779 items, each with its own objective. The priority of these goals in terms of time has been considered by the Economic Planning and Development Council in the course of drawing up the plan. In reality, though, the results depend on how each project is carried out. For example, the Changpin Industrial Zone cited by Chairman Shirley Kuo was first proposed by the Ministry of Economic Affairs. The Economic Planning and Development Council has also consulted with the Ministry of Communications, Ministry of Interior, and the Ministry of Education to work out coordinated plans regarding roads near the zone, housing for workers in the zone, and education for their children. Nevertheless,

such coordination is only coordination in the planning stage. Whether or not the various parties involved can really cooperate with one another closely in the course of implementing the plan will help determine not only how well the zone operates but also the results of the original plan. Thus we can see that whether or not the 779 projects in the Six-Year Plan can all be carried out as planned depends entirely on whether or not their implementation is compatible with the original plan. Premier Hao Po-ts'un has said that project feasibility still has to be studied and detailed planning worked out before a decision is made on whether to incorporate a project in the government budget or hand it over to the private sector.

3. Many numbers in the plan are nothing more than "rough estimates." For instance, per capita national product is estimated at NT\$3.8 billion; savings, NT\$1.12 billion; and investment, NT\$820 million, including over NT\$200 million invested by the government and a similar amount by public enterprises, for a total of NT\$520 million. These are all rough estimates. In the course of implementing a plan, provided one figure changes, every other related figure must be reexamined and revised. For instance, suppose the current war in the Middle East increases the per capita national product this year and next. Not only will private savings used in investment rise substantially, but government revenues will also go up even if tax rates remain unchanged. If the government then asks the private sector to finance an even larger portion of the national construction plan through investment, its NT\$200 million plus public investment will be devoted primarily to improving the quality of life and achieving a balance between the material life and spiritual life. On the contrary, if economic growth falls short of seven percent during the Six-Year Plan and consumer prices rise more than 3.5 percent, we will be forced to reexamine and revise the original goals of some construction projects under the "balance" principle even if we greatly increase the amount of funds.

In short, what we want to emphasize is that the plan will last six years. Its goals are to increase the national income, beef up industrial development potential, narrow the urban-rural gap, and improve the quality of life. Accordingly, it is forward-looking, comprehensive, and balanced. But the plan was drawn up based on current economic conditions. In fact, in the long course of implementing the plan over six years, many of the objective factors beyond our control will change, leaving us no choice but to revise some of the original projections. Premier Hao Po-ts'un has tried to explain the plan time and again. Besides demonstrating the importance the Executive Yuan attaches to the plan and its resolve to carry it out, briefings on the plan were also prompted by a desire to emphasize that the plan would be reexamined and revised in the course of implementation.

**Merits of Importing Foreign Labor Questioned**

91CE0441B Taipei CHING CHI JIH PAO in Chinese  
20 Mar 91 p 3

## ["Rethinking of Admission of Foreign Labor Urged"]

[Text] Minister of Economic Affairs Vincent Siew announced the other day a limited foreign-labor import program to relieve the labor shortage plaguing labor-intensive industries now. Minister Siew's announcement was certainly encouraging news to proprietors caught in a manpower crisis. But can the Minister of Economic Affairs sacrifice social stability and industrial upgrading just to pacify some industries? This is one point the minister must examine critically before deciding to import foreign labor.

Minister Siew proposed the import of foreign labor due to labor shortages in some industries. Automation is not proceeding fast enough to meet the demand for labor, so the minister agreed to import foreign labor within limits by the prospect of factories closing and investing overseas, and its impact on the industrial base of the nation.

Can't these industries really find workers even when they are willing to pay? Of course not, they balk at raising wages to attract people. Instead, they want to hire only low-cost foreign labor to lower production costs and increase their competitiveness. Statistics show that textile workers earned NT\$20,400 per person on the average in December last year, even lower than the average of NT\$22,100 in the manufacturing industry. This shows that the wage level in the textile industry is not as high as the industry claims.

Taiwan's GNP is expanding by the year and wage levels have of course gone up correspondingly. Such is Taiwan's investment environment. If a firm cannot survive in this environment, it has only two choices: upgrade or invest overseas. The Ministry of Economic Affairs cannot induce industry to remain in Taiwan with cheap foreign labor so that it remains forever dependent on government protection for its competitiveness. The businessman may give up the idea of investing overseas, but he will also ignore the importance of industrial upgrading. Does the minister really want to see such an outcome? Moreover, Minister Siew has underestimated the negative effects of foreign labor on social stability and overestimated its contributions to economic development.

Most people think legislation and rules alone can take care of the law and order problems caused by the import of foreign labor. However, once Taiwan admits foreign labor, it is also opening its door to the families of foreign workers. The mutual tolerance between these families and Chinese society, problems of naturalization that may arise when foreign workers marry Chinese women, as well as the eating, clothing, housing, transportation, education, and recreational needs of these workers and their families, all this will affect Chinese society and

cannot simply be managed away. This is why all developed industrialized nations in the world seldom admit foreign labor.

The contribution of foreign labor to Taiwan's economic development is limited to satisfying the need of industry for cheap labor. As a matter of fact, foreign workers come here to make money and remit most of their earnings home. Therefore they play no effective part in expanding domestic demand. Besides, whatever marginal economic benefits they create will be offset by increased social costs. The economic contributions of foreign labor is minuscule.

The decision whether or not to import foreign labor should not be based on the need of only some industries. The only sensible move is to consider it comprehensively in a total context, taking into account the development of the entire economy and human, racial, social, and cultural factors.

**Difficulties Facing Six-Year Fund-Raising Plan**

91CE0273A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese No 3, 7 Jan 91  
p 32

[Article by Chang Yi [4545 1837]: "Funds for the Six-Year Construction Plan Will Be Difficult To Raise"]

[Text] At the end of 1990, Taiwan's "Economic Construction Committee of the Executive Yuan" officially passed a six-year construction plan to be implemented from early 1991. The enormity of the plan's expense is unprecedented in Taiwan; raising the funds may entail various problems. Nevertheless, in his new year's greeting, Li Teng-hui emphasized that the coming decade will be the era of Taiwan's full-scale construction. The government will promote the plan with the greatest confidence and resoluteness.

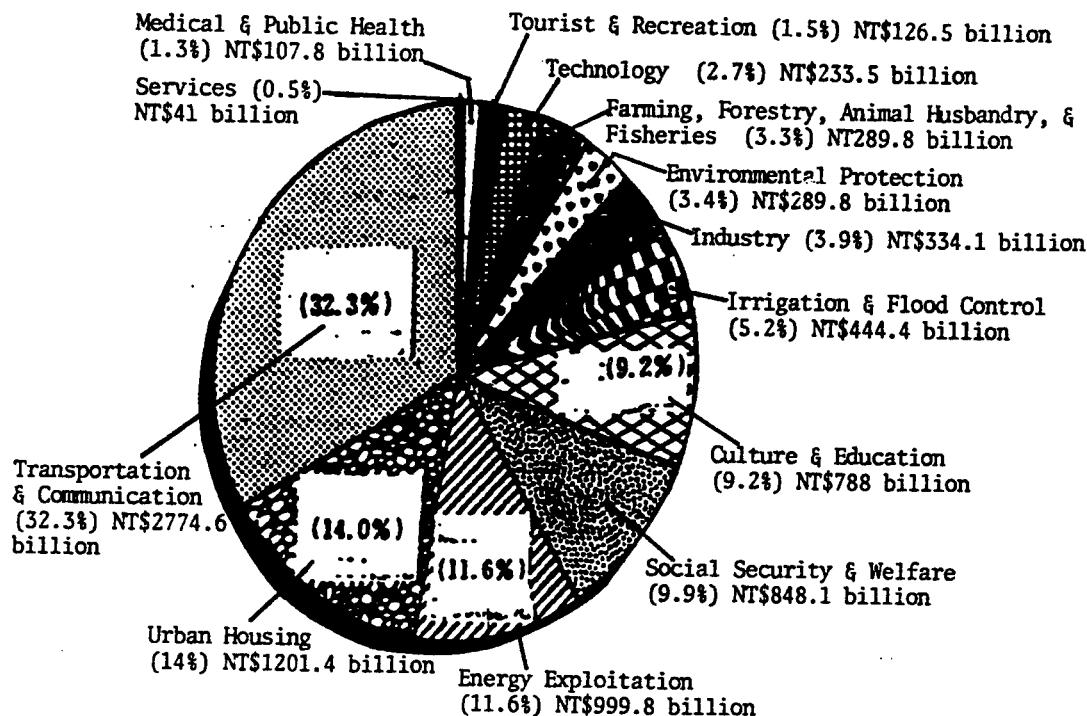
**Relying Mainly on Government Bond Issues**

Based on the targets for the six-year plan, Taiwan's average annual economic growth rate in the next six years will be 7 percent. The per capita gross national product will grow from \$7,990 in 1990 to \$13,975 by 1996. Consumer prices will increase at a rate of 5 percent in 1991, with an average annual rate of increase of 3.5 percent from 1992 to 1996. The annual growth in trade sectors will be: 6.9 percent for industry and 7.8 percent for services, while agriculture will maintain a zero growth rate. The 1991 growth goals are 6.2 percent for industry and 8.3 percent for services.

Attaining this six-year goal requires NT\$8.5769 trillion [new Taiwan dollars], or an annual average expense of more than NT\$1.4 trillion, which generally corresponds to the current total fiscal year budget for all levels of government. Where will the funds come from for these expenditures which have suddenly doubled?

TOTAL FUNDS NEEDED FOR MAJOR PUBLIC CONSTRUCTION (1992-1997)

NT\$8576.9 billion



According to those involved, fund-raising sources will be current fiscal surpluses, accumulated fiscal surpluses, sanctions imposed against assets, and government bond issues.

Nonetheless, there is already a deficit in the current fiscal year: there is no surplus. The accumulated fiscal surplus for the first year of the six-year plan has been practically used up. Regarding sanctions imposed against assets, only publicly held enterprises can be considered, since public land is only rented, not sold. Thus, little income is derived from this source. Therefore, government bond issues will be the source of funds raised for the six-year plan. It is said that such bonds only account for 58 percent of the NT\$1.4776 trillion spent in the first year of the plan.

#### Fiscal Economy Will be Worn Down

What ultimate effect will issuing such a huge amount of government bonds have on Taiwan's economy? What, after all, would be the best funding source for the six-year plan?

Many Taiwan experts and scholars believe that Taiwan's future economy and finances will be worn down, since the expense forecast for the six-year plan is too large. They hold that, if government bond issues are the source of funds, one wonders whether fiscal authorities will be

able to ameliorate the debt-service pressures if more than NT\$600 million in government bonds is sold during the six-year plan, since interest rates will be very high. At the same time, it will also be difficult for Taiwan's financial market to accept such a high volume of bonds. If sales are pushed, this will naturally compel financial organizations to draw funds from enterprises or through bonds. The outcome will be either that industrial withers or the stock market suffers a setback, or both. Even if industry and the stock market fortunately escape the danger, such large issues of government bonds will still mean market interest rates will be inflated. This will bring on inflation, thereby squeezing out returns from privately held enterprises, and will make it hard for industry to avoid the inexorable doom.

Experts and scholars contend that this is a life-and-death matter. Taiwan must estimate its abilities and act accordingly. For example, the plan could be pared to within feasible limits or extended from six to 10 years. Likewise, other feasible plans are to invest various government funds in the stock market and earn a profit, borrow funds, or allow solvent public construction to be undertaken by private firms. Doing so would create great employment opportunities as well as avoid shortages of private funds.

#### Important Financial Work in the Next Few Years

Regarding the opinions of economists, Kuo Wan-jong [6753 1238 1369], chairman of the "Executive Yuan's

Economic Construction Committee," believes that the lag in public construction in Taiwan has now reached a dangerous stage. If nothing is done about it, the entire economy will be hindered, and in addition quality of life will be poor. Planning for a rainy day and accelerating public investment can no longer be delayed.

Kuo says that, looking at the lessons of history, when per capita national income reached \$6,000 in the advanced countries, their economies faced rather great structural changes. At that time the governments all had to make large investments in public construction to meet the needs of economic development. For example, both Japan and the United States issued large amounts of government bonds to increase public expenditures when per capita incomes reached \$6,000. Taiwan's present per capita income is near \$8,000, but there is a clear lack of public construction. For example, the number of automobiles has increased quickly, but there are not enough roads or parking lots. Garbage has increased tremendously, but there are no incinerators, which means that there is an ever lower quality of life.

Kuo believes that the cause of Taiwan's economic imbalance over the past five years is that the people have money, but no place to go with it. Through the six-year plan, people can buy government bonds, participate in public construction, and find new investment opportunities. This can spur on public desire to invest as well as promote economic revitalization.

Kuo Wan-jong thinks that the key to the success of the six-year plan lies in its implementation. She hopes that every one of Taiwan's 1 million government functionaries will strive to "put out their money."

It was said that the six-year plan would be implemented as of 1 Jan 91. However, it should really be implemented from 1 Jul 91, in order to coordinate it with fiscal year budget arrangements.

Disputes surrounding the expense of the six-year construction plan have been going on for quite a while. Now the plan is finally starting, yet the issue of fund raising is still controversial, and no good solution is in sight. It appears that raising this huge sum will continue to be a major task in Taiwan's fiscal government work over the next few years. If the funds cannot be raised, then the entire project will immediately shut down.

#### **Editorial Views Foreign Labor Problems, Solutions**

91CE0431C Taipei CHING CHI JIH PAO in Chinese  
7 Mar 91 p 2

[Editorial: "The Fundamental Way To Solve the Problem of the Foreign Workers"]

[Text] As argument has recently erupted due to the government's decision to expel illegally employed foreign workers, or those who have overstayed their residence permits, and as to whether to be more lenient in

the case of foreign maids, public attention is again focusing on the problem of foreign workers.

The Police Administration estimates there are over 50,000 foreign workers in Taiwan; those alone who some days ago gave themselves up and registered with the government were in excess of 20,000, while many more may just now be planning to get into Taiwan by various devious routes. Their huge numbers and profound impact can no more be ignored, and the time has come to make some immediate and effective decisions.

Tracing the origin of this strong demand for foreign labor, and what causes the employment of so many foreign workers in Taiwan's industries and households, we find the following reasons for it:

First, the problem of our citizens' work attitude: because of rising incomes in recent years and general affluence, also due to rampant speculative activities of various kinds, there has been a change in value concepts. Diligent work and seeking fulfillment and happiness in one's profession are no more regarded as obligatory duties of man; the sanctity of work has vanished from the minds of the people. They will, therefore, find fault with and object to places of work, to the particular branch of industry in which to work, to the environment of their working place, to the set holidays and working hours, to the remuneration and methods of payment, to the kind of work, as well as to their designations. As a result, there is generally little desire to work, and many branches of industry are short of workers.

Second, the problem of insufficient investments in industry: As society advances to a certain level, industrial investments should also rise commensurately. Labor-intensive types of traditional industries must gradually be eliminated by wide-scale employment of automatic manufacturing processes, the work environment must be improved, and staff and workers must be given opportunity to advance themselves by in-service training, so as to raise their productivity. However, investments in activities of this kind by the owners of enterprises has been insufficient.

Third, the problem of the absence of laws and regulations: Owing to the fact that Taiwan's legislative setup has been structurally deficient and ineffectual during the several decades of economic transformation, new laws, that were needed, have not been forthcoming, and amendment of the old existing laws was difficult to achieve. There were, therefore, no adequate norms for industrial activities, so that employment and services remained without set standards, and there was even less change to stop the illegal employment practices of employers. Institutions for the care of the old and for looking after the upbringing of infants and youths could not be set up. As a result, much manpower that could have actually been used in productive activities was kept from the labor market.

The result of all these various circumstances was that, on the one hand, much useful manpower became disguised

unemployment, and that, on the other hand, a false labor shortage was created, in that employment opportunities did exist, but no one appeared to fill the vacancies.

To achieve a fundamental solution of the foreign workers problem, we believe our efforts must be exerted in the following directions:

First, creating a set of legal norms: Laws must immediately be initiated in two areas: One area is the area of normalizing employment relations, by, for instance, a law on employment and services, which would enable holding employers fully responsible; thus preventing them from employing illegal foreign workers. Equally required is a law ensuring the equality of the two sexes in employment, to eliminate sex discrimination, to introduce female labor into the labor market, and thereby increase the productive forces. Another area would be that of spurring on industry to raise the productive forces, for instance, by rewarding automation, by providing educational facilities for staff and workers, by changing the nature of the industrial operations concerned, etc., so as to reduce reliance on manpower.

Second, encourage and reward investments while inducing upgrading: Action may here be taken in three ways: One, rewarding changes in the nature of industrial operations. Discontinuation of labor-intensive industries should be rewarded with preferential treatment, such as granting loans, transferring technologies, providing opportunities for advanced studies, lightening tax burdens, etc. Two, encouraging and rewarding automation of production. Taiwan's domestic industry is presently still extremely backward in production automation and computerized central controls. Use of these methods must be encouraged, and the Ministry of Economic Affairs should render technical assistance in this respect in order to raise the productive forces and reduce demand for manpower. Three, the many industries that still must rely on manpower should be assisted by the government in their relocation.

Third, enhancing education toward a change of concepts: Education concerning industrial development and employment of manpower should be pursued in two respects. One is education of the owners of enterprises and their staff and workers, to include forecasting the direction that future industrial development is to take, nurturing the concept of having business policies subject to a variety of norms, recognizing the relationship between work environment and working conditions on the one hand and productive forces on the other hand, automating production and rationalizing work processes, studying the significance and value of development and creation of new things, etc. The other area concerns the nurturing among the general public of correct employment concepts and work attitudes, realization of the relativity between rights and obligations of workers, understanding the significance in a person's life of seeking fulfillment and happiness in one's profession and of always seeking to improve oneself, and establishing such concepts and attitudes as equal sharing of

men and women in the upkeep of their households, and having all members of a family share common responsibilities in family affairs.

Fourth, establishing a relevant support system: A survey by the Women's New Knowledge Foundation, commissioned by the Executive Yuan's Commission on Labor, has shown that there is really no manpower shortage on Taiwan, since there actually still exists a large reservoir of hidden idle manpower. To introduce this potential of manpower into the employment market for productive activities merely requires some supportive measures. For instance, providing opportunities for prior job training would equip these people with basic capabilities to enter into productive activities; the spread of employment information must be extended much wider so as to avoid unemployment which may lead to friction; establishment of a system of home service for the old and sick, healing the sick before it is too late, and caring for them within their own districts, all such measures can free much additional manpower. Establishment of a broad system of youth and infant care centers would bring female labor back into the labor market. Furthermore, if a system of various government services were established that would provide conveniences for employed persons, and if supportive measures were adopted by the enterprises, this would all help make up for any shortages in manpower and reduce the demand for foreign workers.

#### Admission System Seen Necessary for Labor Imports

91CE0441A Taipei CHING CHI JIH PAO in Chinese  
20 Mar 91 p 2

[Article by Fu Kang Ke Sai (1381 1511 0344 6357): "Admission of Foreign Labor Should Be Preceded by Establishment of Management System"]

[Text] With the launching of public construction projects including North Expressway No 2, the ROC government has finally officially allowed the import of foreign labor. While the first batch of workers was limited to those from Thailand and numbered less than 400, reports say another group, also around 400, would be imported soon. It is truly admirable that the government allows the admission of foreign labor under strict management.

In my opinion, Taiwan badly needs to import foreign labor now. If the Taiwan economy, which has matured extremely fast, is to continue to grow smoothly, one important condition is adequate manpower. Although Taiwan is making brisk progress toward automation, which saves manpower, it is already faced with labor shortages of a structural nature. As the Six-Year National Construction Plan is about to start, the problem of labor shortages may worsen even more rapidly.

Reportedly there are more than 100,000 foreign workers in Taiwan; of course, 99 percent are staying or working in Taiwan illegally; only a small percent "turned themselves in" before the end of February. The tremendous

domestic demand for and severe shortage of labor is the main reason why so many foreign workers are staying in Taiwan.

Labor shortages are most severe in the building industry and engineering industry. Recently the media has reported that several enterprises have formally asked the government to import labor. We can see that domestic enterprises are feeling a sense of crisis about the problem of labor shortage.

In addition to the manufacturing industries, the service sector too is busy looking for help. Statistics show that more than half of the 400,000 people who quit manufacturing in the last three years have switched to the burgeoning service sector. Recently, even the service sector cannot find help. So we must say that labor shortages are inherent in a world becoming increasingly software-oriented.

As a nation ruled by law, we must strictly prohibit the illegal entry of foreign workers in accordance with the law. The government should assess the manpower needs of enterprises beforehand and consider easing restrictions on foreign labor as appropriate so as not to hamper business growth.

Taiwan has an acute need for foreign labor to fill the gap in its manpower. And some Asian nations, especially member nations of the Association of Southeast Asian Nations [ASEAN], are now counting on the remittances from their workers overseas as a major economic resource.

Its economic miracle has made Taiwan a candidate for the ranks of developed industrialized nations. If Taiwan is to fulfill its international responsibilities, should it not take the initiative to understand the conditions in other nations and give them support? Most industrialized developed nations are looking for ways to make it easier to import foreign labor now.

However, a laissez-faire policy on foreign labor will not only be bad for Taiwan but will be bad for the labor-exporting nations. Hence we must promptly work out a system that benefits both the labor-exporting nation and the labor-importing nation to avoid unnecessary trouble later.

We must first divide labor into ordinary workers and skilled (professional) labor when forming this system. Skilled labor refers to qualified personnel with special expertise or knowledge, and it is a case of the more, the better. There is no logical reason why we have to limit the entry of skilled workers provided it does not discourage us from training our own people.

The problem is with ordinary workers. Ideally large-scale importation should be avoided so as not to disrupt the labor market. Moreover, we should look at the quality of such workers very closely. Even if they have no special expertise, preferably they should have considerable work experience or, failing that, at least some basic experience.

In my opinion, before Taiwan formally opens its door to foreign labor, the most important preparation is to establish an admission system. For instance, before foreign workers enter Japan, they are first given training in their own countries by Japanese enterprises. The idea is to impart to them certain skills and knowledge. In the process of training them, Japanese firms can also obtain a better idea of the number and kind of people they are getting.

Of course, it is up to the industries themselves to determine in advance the number of people to be trained in accordance with their needs. Upon the completion of training, the workers are registered and then await departure for Japan in order.

Another important point is that if we allow foreign workers to work here, they should have the same basic rights and obligations as local workers. They should be required to pay taxes, and they should enjoy medical insurance and other social benefits available to their Taiwan counterparts. In short, the goal is fair and equal treatment.

If we have a good system in place beforehand, the importation of foreign labor should be able to start off on the right track. With a sound system in place, however they come and go, foreign workers will not affect the domestic labor market unfavorably. Conducted in this manner, not only will the admission of foreign labor benefit the economic growth and social stabilization of the importing nation but will also contribute to international relations through the exchange of labor. I sincerely hope that the ROC government will once again demonstrate courage and bold actions.

#### Foreign Workers Possible for Certain Industries

OW1904141591 Taipei CNA in English 0757 GMT  
19 Apr 91

[Text] Taipei, April 19 (CNA)—The government may allow certain specified industries to employ foreign workers to help relieve local labor shortages, Vice Economic Affairs Minister Li Shu-chiu said Friday.

Li said the regulated employment of unskilled alien workers will not necessarily affect job opportunities for local people because Republic of China [ROC] citizens originally doing manual work can be retrained for higher level positions.

If the government insists on banning foreign workers, Li said, some important upstream industries may be plagued by labor shortages. The phenomenon will eventually undermine the nation's overall economic development, he stressed.

Li continued that construction and dyeing companies, which have long been troubled by acute labor shortages, may be among the first to be permitted to hire foreign workers.

The industrial development bureau will survey labor shortages in different manufacturing sectors before deciding on the list of industries to be allowed to employ aliens.

The Ministry of Economic Affairs will meet with the Council of Labor to discuss details about the recruitment of foreign workers by private manufacturing companies, Li said.

The ministry will also draft strict regulations to limit the number of foreign workers and the length of their stay.

The government currently only permits contractors of major infrastructure projects to hire alien workers on a case-by-case basis.

Meanwhile, the first group of foreign workers recruited by BES Engineering Corp. for work on the Taipei rapid transit system construction is scheduled to arrive 3 May.

All of the 131 workers are from Thailand, BES spokesman said. They had worked for BES construction projects in Kuwait before the outbreak of the Gulf war last August.

Three other Taipei rapid transit system contractors have also applied to recruit foreign workers who will begin to arrive in groups mid-May.

### Report on U.S.-Taiwan Trade Talks

91CE0431B Taipei CHING CHI JIH PAO in Chinese  
11 Mar 91 p 3

[“Comprehensive dispatch” by staff correspondent: “Change in the Consultative Pattern; Dialogue and Serious Mutual Negotiations Come on Stage”]

[Text] At the comprehensive Sino-U.S. economic and trade consultations, the Chinese side will break with past precedent and is prepared to enter into a dialog pattern of give and take concerning the many items under discussion. The Chinese side will, furthermore, during the consultations present the American side with a memorandum on China's protection of intellectual property. The two sides will also consider setting up a joint quarantine task force to solve the problem of quarantine inspection of products being imported by both sides from each other.

The comprehensive four-day Sino-U.S. economic and trade consultations started today (the 11th) in Taipei. The two sides had appointed as their main negotiators Hsu Ko-sheng [6079 2688 3932], director of the International Trade Bureau of the Ministry of Economic Affairs, and Laura Anderson, deputy assistant for Asian affairs in the Office of the U.S. Trade Representative. The U.S. delegation of seven persons arrived in Taipei yesterday. After conclusion of the four days of comprehensive consultations, we understand, the schedule of the U.S. delegation includes visits to Chinese economic

and trade units and to the Council for Economic Planning and Development, as the U.S. side wishes to inform itself of China's six-year development plan.

### Exports of Low-Priced Rice Due to Overproduction

The International Trade Bureau of the Ministry of Economic Affairs, which acts as secretariat for the present consultations, stated that when preparing the agenda for the meeting, it had been mindful of the fact that consultations are bilateral discussions to reach mutual understanding; there has to be give and take. On such topics as agriculture, copyright, tobacco and alcoholic beverages, and on the overall organization, there will first be negotiations with the relevant units, and the topics that we are most concerned about will then be brought up by us on our own initiative.

The following are the items of primary concern to both the American side and the Chinese side:

#### 1. Agriculture

As to the production and marketing of agricultural products, the American side is crucially concerned about Taiwan's exports and production of rice, because the American side alleges that Taiwan is exporting rice at inordinately cheap prices, and the United States has therefore restricted Taiwan rice imports into the United States. For this reason our side will explain on this occasion regarding the rice issue that Taiwan exports rice purely because of overproduction and the need to find outlets for its rice, while the United States is merely motivated by trade profits in its rice exports; there is here a very considerable difference. Moreover, Taiwan is for many years already actively promoting the conversion of rice fields to other uses, and also promoting domestic sales of products manufactured from rice. Furthermore, as the six-year plan targets a zero growth in agriculture, Taiwan will keep its rice production at 1.9 million tons.

With regard to the question of the overall agricultural development plan, the Agriculture Commission stated that the plan for the agricultural departments within the six-year national construction plan has been worked out in line with Taiwan's overall agricultural development plan. Taiwan will therefore reply to U.S. enquiries at the present consultations by referring to the contents of the six-year plan.

#### 2. Quarantine and Inspection Norms for Animals and Plants

The U.S. side expressed the wish that a joint quarantine task force be set up, as in the case of Japan and South Korea, to work out mutually applicable quarantine and inspection criteria, which will be helpful in that information on import requirements will be available well in advance.

### **Ministry of Finance Disinclined To Discuss the Dispute Over Customs Charges for General Motors**

#### **3. Customs Tariff**

A highly placed official of the Ministry of Finance stated that the American side has placed the issue of the assessed value and tariff classification of General Motors cars on the agenda, but that the Ministry of Finance considers this as a special case which it does not intend to discuss.

In actual fact, the customs administration conducts affairs according to the Customs Law and has already arrived at an agreement with the General Motors Corporation. How conditions will be in future, whether the General Motors Corporation will still declare too low values for high-value items, cannot yet be foreseen. The Ministry of Finance has therefore decided to dispatch two officers of the National Customs Administration to explain to the U.S. side the course of the negotiations and will not bring up this case in the present consultations with the American side.

#### **Urging the United States To Abolish the Preregistration Requirement Before Allowing Legal Action**

As to the classification of U.S. turkey meat and potatoes in the import duty tariff, the Ministry of Finance stated that Taiwan's maritime customs tariff adheres to the unified international commodity classification system and classifies all commodities accordingly. Whether American turkey meat is wrongly classified will be fully discussed between the U.S. side and the Chinese side.

#### **4. Protection of Intellectual Property**

On the topic of protection for intellectual property, the attack will this time come from our side, asking the United States to abolish the requirement of prior U.S. registration for Chinese works, before action may be filed in U.S. courts. The American side, on the other hand, is concerned about violations of copyrights for computer softwear.

Wang Chuan-lu [3769 0356 4389], chairman of the Copyright Commission of the Ministry of the Interior, stated that according to current American laws and ordinances anyone who intends to file a suit for copyright infringement with the American law courts must have had his work registered in the United States. As a consequence, suits filed by Chinese firms for copyright violations are always meeting with opposition. The Chinese side will therefore propose to the American side at the present talks that Taiwan be treated the same way as the treatment afforded by the United States to Berne Convention countries, namely to be allowed to file suit without the requirement of prior registration.

Wang En-po [3769 1869 0980], director of the Postal and Telecommunications Bureau of the Ministry of Communications, pointed out that the main item in the negotiations, as far as the telecommunications section is concerned, is that the American side wishes to be informed on the progress in Taiwan's revision of its Telecommunications Law and on Taiwan's telecommunications purchase operations.

Wang En-po said that the "Task Force for Telecommunications Policy and Modernization of Relevant Laws" of the Ministry of Communications has already sent its "Draft of a Revised Telecommunications Law" to the Law and Regulations Committee of the Ministry of Communications. The Law and Regulations Committee expects to largely revise the Telecommunications Law in support of the policy of liberalizing telecommunications affairs and transforming its organization into a private corporation.

Wang En-po indicated that opening up telecommunications business of the second category to foreigners, as a matter of policy, was mainly to raise the value of telecommunications circuitry business. However, the proportion of shares to be allowed to foreign investments has not yet been decided.

#### **Higher Profits From Public Sales of Beer Hoped for by the Chinese Side**

#### **5. Tobacco and Alcoholic Beverages**

On the topic of tobacco and alcoholic beverages, a focal point was the announcement of the Public Sales Bureau of a procedure for liberalizing the importation of strong liquor. Other questions such as the smuggling of tobacco, new procedure for warning labels on cigarette packages, the question of cigarette advertisements, refunds by the Public Sales Bureau, reduction of profits on the public sales of grape wines, raising profits on the sale of beer, etc. will all appear on the agenda of the Sino-American consultation meetings.

On the hotly disputed question of strong liquor advertising, the Public Sales Bureau has initially decided to free up the strong liquor market beginning 1 April and allow strong liquor to be imported. All brands of alcoholic beverages may without restrictions advertise in periodicals, while all marketing activities must be handled by the Public Sales Bureau.

Corresponding to the demand of the American side for a reduction of Public Sales Bureau profits on grape wine, the Chinese side will propose a higher profit margin on the public sales of beer. The standard rates of profits to be collected by the Public Sales Bureau according to the original Sino-American agreement on tobacco and alcoholic beverages were NT\$119 on every liter of grape wine and NT\$30 on every liter of beer.

The question of warning labels on cigarette packages was brought up again and again, and it will be proposed to move the warning labels from the side to the front of the

packages. The Public Sales Bureau will delay action until an explanation and decision will be received from the Ministry of Economic Affairs.

#### 6. Insurance

In response to the demand of the American side to discuss the matter of the insurance trade at the present economic and trade consultations, a competent official of the Ministry of Finance declared that the main concern is to make progress in amending the insurance law, hoping at the same time that American insurance companies will establish subsidiary companies on Taiwan and also participate in new insurance companies to be set up as joint ventures with Taiwanese, which will enable foreign insurance companies to invest in real estate.

#### Opening Up the Insurance Market Still Poses Difficulties for Taiwan

Officials believe that many items on the agenda of the consultations are old problems that have been repeatedly discussed, for instance, the question of allowing American insurance companies to invest in Taiwan real estate. It is not that the Ministry of Finance refuses approval, but rather that the present land law prescribes these restriction. If the demand could have been accepted, it would have been accepted long ago.

It must be noted at the same time that the amendment of the Insurance Law has so far not yet been completed, and the government has not yet opened up the field even for the establishment of new insurance companies by its own citizens. The government is therefore unable to make large-scale concessions on this topic of American demands.

#### Mainland Scholars Discuss Cross-Strait Relations

91CM0346A *Taipei HSIN HSIN WEN /THE JOURNALIST* in Chinese No 204, 8 Feb 91 pp 54-57

[Article by Su Tzu-chin (5685 1311 3830): "Engels To Become Teacher on Both Sides of the Strait?"]

[Excerpts] In view of increasing cross-strait contacts, [passage omitted] this journal has recently conducted a special interview of two of the mainland's most influential scholars, Chen Kongli [7115 1313 4539], chairman of Xiamen University's Taiwan Institute, and Qian Chengshou [6929 2052 0649], chairman of the Institute of Economics, to discuss the cross-strait economic relations and possible unification mode. [passage omitted]

Question: During the Persian Gulf War, the Taiwanese government put its armed forces on alert, fearing that Communist China would seize the opportunity to attack Taiwan, just as the Soviet Union attacked Lithuania. What are your feelings about this?

Chen: This shows how little Taiwan understands us. Many of my Taiwanese friends often question me about why Communist China has not given up the idea of

taking Taiwan by force. Although I cannot give them a satisfactory answer, in reply, I often ask, "Do you truly believe that we will attack you?" The answer is, nobody really believes that. Prior to 1979, when the mainland was still a closed society, Xiamen was the frontline. On the streets, one could see soldiers everywhere, and all types of construction were prohibited. But 10 years ago, the CPC began to advocate a "peaceful unification" line, and Yang Shangkun himself said that "we will never fight our own people." Since then, the troops have been disbanded, and new constructions have been put up. That is why all the buildings you see in Xiamen were either built within the last 10 years or so or are over 30-40 years old; nothing was built in the decades in between.

The Taiwanese government simply has too little faith in the CPC, but Taiwanese businessmen who come here often know that "there simply will not be any fighting"; otherwise, they would not be investing here. As you know, it is not all that difficult to start a fight. During the Jinmen bombing raids in 1958, shells from Jinmen fell in Xiamen and even right onto the Xiamen University campus. We across the Strait have kept apart for too long. We should keep in touch and get to know each other better. Those with the above concerns should come to visit Xiamen.

Question: But the CPC regime tends to go back and forth. It may be open today, but will it reverse itself tomorrow?

Chen: Your doubts about the CPC regime is understandable. My Taiwanese friends often ask, "During the Cultural Revolution, you people even purged your own chairman!" and "How could you crack down on the students on 4 June." I find it difficult to answer those questions. But I can say that the opening up of Fujian has put us on the "road of no return."

During the Cultural Revolution, Xiamen was part of the Fuzhou Garrison. There were soldiers of the Liberation Army everywhere. Today, the garrison has been dismantled, and Xiamen is under the Nanjing Garrison's jurisdiction. We have opened up for some time now. Not long ago, a Japanese article reported that, "the Fuzhou Garrison will reopen," and the Japanese DAILY NEWS came to interview me, and many in Taiwan were also very concerned. Since I know little about the CPC's policies, I dared not confirm nor deny the news, but in my heart, I knew it was "quite improbable." Afterwards, the report was proved to be wrong.

Qian: This can also be seen in the massive constructions in Xiamen in recent years. Prior to its opening up, Xiamen's infrastructure only accounted for 0.3 percent of the whole of the mainland's. Today, obviously, we have grown. More docks, more railroads, more highways, and more housing are being built. There is construction work going on everywhere. It will be very difficult to turn back and close ourselves off again.

Question: What are your views on the future development of the cross-strait relations?

Chen: That will depend on whether there will be any new development after Taiwan lifts its "Interim Provisions During the Period of Mobilization for the Suppression of the Communist Rebellion" in May. I believe that many of the earlier restrictions on the cross-strait relations will be eased with the abolition of the interim provisions. Not long ago, Wei Hao [7614 5548] came to see me and said that it is possible that within this year, Taiwan will permit people from mainland academic and cultural circles to attend conferences in Taiwan. When that time comes, we will be able to visit Taiwan.

Basically, our cross-strait relations will continue to develop on the trade and economic and cultural fronts first, and we will give each other incentive on a rational basis. To have contact and to work in concert with each other is the first step toward understanding each other.

Qian: On the economic front, our cross-strait interchange is "mutually beneficial." Taiwan's economy is at the crossroads. Many Taiwanese businessmen are forced to invest overseas, and coming to the mainland to take advantage of the labor force here is a move that will benefit both sides.

Question: What are your views on Wang Yung-Ching's [3769 3057 1987] decision to invest in Haicang?

Chen: Although Haicang is right next door, we learned of Wang Yung-ching's investment decision only from the Taiwanese media. The CPC government has kept this matter under tight security. However, it is our opinion that the mainland is economically backward; it must accelerate its development. Most people feel that it is great that Wang Yung-ching will be opening a plant here, which no doubt will bring along the economies of Xiamen and Fujian and turn Xiamen into a petrochemical town. Of course, there are some who object to the whole thing, saying, "The petrochemical industry pollutes our shores. Otherwise, why would the Taiwanese government be opposed to it?" Such opinion has not generated much pressure. The mainland people are not that aware of the environmental protection issues yet.

Qian: Actually, people are more afraid that Wang Yung-ching's coming here will raise the wage of factory workers in Xiamen and jack up prices.

Question: With wave after wave of Taiwanese businessmen coming to Xiamen to invest, what has been the effect on Xiamen?

Qian: Today, we have 401 Taiwanese funded businesses in Xiamen. The earlier Taiwanese enterprises were of poorer quality. Nowadays, the standards are much higher. At first, the investments were confined to the 2.5 sq km Huli Industrial Zone. Today, they are spread out all over Xiamen and even into Xinglin and Haicang and so on.

Chen: Although Taiwanese businessmen have brought with them progressive management and administration concepts and have helped solve many of Xiamen's marketing and employment problems, they have also undermined the mainland's traditional spiritual civilization. For example, Taiwanese businessmen's sexual misconducts are common in Xiamen, and whenever the Taiwanese government cracks down on the mob, they move to Xiamen, disrupting the peace in Xiamen. The year before last, many of them even came to Xiamen to buy and sell guns.

With respect to consumption, the cost of living in Xiamen has been raised skyhigh by Taiwanese businessmen. Many people blame high prices on Taiwanese businessmen. Prices are even higher here than in Guangzhou. The young people are learning from the Taiwanese' habit of high living. Everybody smokes imported cigarettes, as if native tobacco is not good enough any more. They do not have the Taiwanese people's economic clout, but they want to emulate their lifestyle, and as a result, social values are corrupted.

For example at our research institute, we have a hard time keeping students. Reportedly, the doorman at the Hotel Southeast Asia is one of Xiamen University's graduate students. Our graduate students only earn 200 yuan RMB a month after they graduate, but they can make as much as 300-400 yuan a month working for a Taiwanese enterprises. How can we keep them here?

As the story goes, our school was unable to keep a student who was eventually assigned by the Ministry of Foreign Affairs specifically to the Taiwan Affairs Office, but he made only a little more than 100 yuan RMB there.

Even the faculty and staff at Xiamen University are earning less than people in city units. Xiamen University is one of the key universities administered by Beijing's State Education Commission and therefore does not receive any subsidies from the city. The university's professors earn less money than most Xiamen City's middle school teachers.

Under siege by the material civilization, mainland China's spiritual civilization must also consider making appropriate adjustments. We are at a transitional period now, and many things appear very confusing. The intellectuals realize that there is a crisis, but there is nothing they can do. I am afraid we may have to wait a long time before things will gradually improve.

Also, Taiwanese people seem to be more "superstitious," and they set a poor example for Xiamen's young people. For instance, each year, hundreds of thousands of Taiwanese come to burn incense to celebrate Meizhou Mazhu's birthday, and the Nanputuo Temple next door to Xiamen University is cramped with Taiwanese worshippers on Buddha's birthday. These are not normal practices in Xiamen.

Qian: Some Taiwanese businessmen give people the impression of being "rich and vulgar." In recent years

especially, the number of wholly Taiwanese-owned enterprises has grown, but they are not very concerned about "workers' protection," and some pay child-laborers excessively low wages. They are giving people a bad impression.

Question: Do you think that a direct, cross-strait route is feasible?

Chen: The mainland welcomes a direct, cross-strait route. Today, you have to go the extra distance of traveling to Hong Kong to get here, which is not very economical. If the two sides can negotiate and reach some kind of agreement, find a few harbors, ports, or airports where airplanes can land, why not? I believe that after the abolition of the "Interim Provisions" in May, a direct route can be negotiated.

However, I do worry that when Taiwan does approve the direct route, the mainland will be thrown into chaos, because it simply does not have the facilities to handle it. Look at the Xiamen Airport. It is the country's third largest airport, and it is already too congested. In the future, when the direct route with Taiwan is opened, there will not be enough docks and airports to handle the traffic. That is why the Chinese government has emphasized that Wang Yung-ching must come "fully equipped" if he makes his investment in Xiamen. Our facilities are already over-loaded.

Question: What about your views on the unification of China? Do you think we should emulate the two Germanys?

Chen: I think the unification of China will create its own pattern, unlike the two Germanys where one practically swallowed the other. Mainland China has already come up with the idea of "one country, two systems." The two sides can still sit down and discuss what eventually will take place, but it will not be a case where one will swallow the other.

I think that if the cross-strait relationship continues its current benign development, unification can be achieved sooner than expected. Probably, negotiations can begin sometime in the 20th century, but I am afraid we will have to wait until the 21st century for the real solution to the unification problem. The CPC has said that "we will not fight our own people," but it is not willing to accept third party interference in the cross-strait unification issue.

Today, the two sides have basically reached a mutual understanding, and that is, there is only one China. Taiwan is wrapped up in its current structural reform, and unification is not its top priority. Meanwhile, mainland China is also seeking development through reform and opening up. Both sides are initiating contacts at various functional levels and are reserving talks at the political level for later.

Early on, China said, "Hong Kong means the return of a colony, but Taiwan has always been a part of China's

territory. The two have had different statuses all along." Long ago, China maintained that it would allow Taiwan a high degree of autonomy, that Taiwan could keep its own army, and that it would never send officials to Taiwan but that the Taiwanese could serve as officials in the mainland. Before, it said that there could be negotiations between the two parties; today, it is even willing to allow other parties to take part in the negotiations. This shows how far China has come. But no matter what, all parties must sit down and talk things over. There is nothing that cannot be negotiated.

Taiwan has always accused the CPC of resorting to the "united front" tactic. I personally think that there is no justification for it. The term "united front" was coined during the War of Resistance Against Japan. It meant that we should band together to fight the Japanese. There is nothing sinister about it. The United Front Work Department is here to help people. It is a host organization and is by no means a combative unit.

Question: Many people in Taiwan feel that the CPC is trying every way to elbow us out of the international community. This is most unfriendly. How can we reunite?

Chen: The CPC does not oppose Taiwan. What it opposes is separation, and it is not willing to accept international intervention, and therefore it does not wish to see the emergence of two Chinas, and this makes it look like it is always trying to squeeze out Taiwan. But this can be resolved through bilateral negotiations to reach some kind of understanding. Just like the methods worked out by the Asian Development Bank and the Olympic Games, which prove that the CPC can be "flexible" in its policies. So long as it has to do with economics, the CPC has no reason to stop it, nor can they stop it. For example, the CPC has said very little about Hao Po-tsun's [6787 2672 2625] visit to Singapore, which shows policies do change as situation changes.

Question: Internationally, it is popular nowadays to play regional economics, like the unified European market and the U.S.-Canadian cooperation. What are your views on a cross-strait, regional economic arrangement?

Qian: Regionalization of the world economy is an inevitable trend, but Japan's scheme of an East Asian economic bloc has excluded mainland China, and the CPC will not agree to it. On the one hand, Japan is lowering its tariffs and implementing horizontal division of labor among its industries and shifting its technologies to the four small dragons while increasing investments in the ASEAN nations, namely, Indonesia, Malaysia, Brunei, Thailand, and the Philippines, in an effort to enhance its economic status in South Asia. This scheme may be very appealing to the four small dragons, but everybody is worried about a resurgence of Japan's ambitious "circle of common prosperity" and militarism, and there is substantial resistance.

We on the other hand have suggested our own regional economic scheme, which is to set up a "South China economic bloc" that links the four provinces of Fujian, Guandong, Guangxi, and Hainan Island plus Hong Kong, Macao, and Taiwan to form an economic bloc along the South China coast. This bloc will include two of the four small dragons which can invest in and transfer their technologies to the four provinces in the mainland, and in turn, since the market mechanisms of these four provinces are in close proximity to Hong Kong and Taiwan, they can become a unified base. This economic bloc is ready to come into being spontaneously; all it needs is an organizational system to establish itself.

So far as East Asia is concerned, mainland China is the most influential country, but economically, it is far from being a leader. If we put together all of China's resources, including that of Hong Kong and Taiwan, we may be Japan's match. Ever since noticing that the focus of the world is shifting eastward, Japan has been very active with its regional economic plans.

Some people say that the whole of China (including Hong Kong and Taiwan) should join together to form a big Chinese economic bloc. I don't think that is realistic, because except for the few coastal provinces, the rest of China is in no position to work with Taiwan. Moreover, such a move will probably be retaliated by the Southeast Asian nations, and so the "South China economic bloc" approach is probably better.

Question: The CPC Central Committee has recently transferred Fujian's Governor Wang Zhaoguo [3769 0340 0948] to the post of director of the State Council's Taiwanese Affairs Office. Do you think this move will have any impact on the CPC's cross-strait policy?

Chen: The formulation of the CPC's major policies have always been a collective effort. No one man has the power to decide the country's policies. Wang Zhaoguo used to be Fujian's governor; he understands Taiwan and has come into contact with many Taiwanese people, and Taiwan has responded favorably to this move. At least Taiwan has had some dealings with him. He is not a perfect stranger that one would have to worry about saying the wrong things to.

I think in the future the cross-strait unification will embark on some kind of "Engels-like" theory. Different elements will give play to their respective strength and will contend with each other until a direction is found. Two opposing forces are like two lines—the compromise is the direction of the center line of the parallelogram. Even those who advocate Taiwan independence must give play to their strength during the unification process to let people have a chance to consider some of the issues they advocate, and we need to pay attention to these issues and not overlook them in the unification process.

My attitude is that we should talk with everybody, no matter what he or she is advocating. We need to communicate and understand each other. Like those who

advocate Taiwan independence. They have their historical background. They are not happy with the KMT, and they do not know much about the CPC, and therefore they have come up with their own ideas. But we can try to understand them by communicating with them and eventually reach a consensus.

### President, Premier Face Off Over NSB Control

91CM0333A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 203, 3 Feb 91 pp 14-15

[Article by Liao Fushun (1675 4395 7311): "Li Yuan-ts'u Plays Infield Strategist; Sung Hsin-lien Performs as Outfield Fighter—Preliminary Agreement Reached on National Security Bureau Subordination Issue"]

[Text] "Whoever controls authority for intelligence and espionage controls the country" seems to be the most authoritative litmus test of power subordination today in Taiwan's political system, which is neither a "presidential government" nor a "cabinet government" system. Naturally, what ensues is an intricate battle about command authority for intelligence activities, which hangs over Taipei like a haze.

Nevertheless, the first stage of this battle came to a close on 23 January. On that day, the Kuomintang [KMT] constitutional revision planning team resolved that the National Security Bureau [NSB] was to be under the National Security Council, and the National Security Council is to be directly under the Office of the President. This means that, in the forthcoming chess manual on constitutional government reform, Li Teng-hui will continue to control this invincible intelligence "vehicle" that can function both offensively and defensively. Li Teng-hui has again won in a life-or-death, survivor-or-perish battle in the power arena. However, judging from today's conference, Li Teng-hui's win was not easy, inasmuch as that "utterly devoted" and "most faithful and true" premier, Hao Po-tsung, openly sang a contrary refrain, with Legislative Yuan President Liang Su-jung [2733 5126 2051] chiming in to support him from the side.

If the situation is judged on the basis of past experience in the Chinese official arena in which masterful maneuvers are used that, like a willow leaf gliding across water, leave no trace, Hao Po-tsung's announcement at a meeting that day was truly "sincere words and earnest wishes." The sense of what Hao Po-tsung said was that, if the NSB is an action agency, it must be subordinate to the Executive Yuan because the NSB must rely on the Executive Yuan for both its budget and its personnel. Since it is the Executive Yuan that "provides both the money and the manpower," but it is the Office of the President that is the boss, how could anyone in a position of authority such as Hao Po-tsung not speak out? However, even more humorously, Hao Po-tsung said that if the NSB is only an intelligence advisory organ but not

an action organ, then he had no views about its subordination. Of course, no one would have any views about the subordination of such an organization.

Furthermore, in view of the current way in which policy is made by closing the door and talking in private under "the joint rule of Li and Hao," Hao Po-tsun must have fully expressed his views, held discussions, and even reached a consensus about the activities and the subordination of NSB during several secret talks at the Office of the President. So what is the need for him to make a statement at the "planning team" meeting? This shows that Li and Hao clearly are not utterly devoted to each other, and that Hao Po-ts'un's selection of the "planning team" as a forum for expressing a contrary view was naturally a declaration of his position.

The fact is that the matter of NSB's subordination is something about which Hao Po-tsun has long been seriously concerned. For example, on 15 June 1990, Legislator Hsu Wu-sheng [6079 2976 0524] suggested during an interpellation that the Taiwan Garrison Command Headquarters [TGCH] be merged with NSB to form a "central intelligence agency" under the Executive Yuan. At that time, Hao Po-tsun replied, "When the government mobilizes to end the rebellion suppression period and readjusts central government agencies, the centralization of the intelligence system issue will be given attention."

This was a personal and standard reply from which it was not possible to determine Hao Po-tsun's intentions. However, not long afterward, Hao Po-tsun retracted the "Executive Yuan Organization Code Draft Plan," which the Legislative Yuan had already partly examined, and for which some provisions had already gone through a second reading. He intended to complete revisions within a year and then send it back to the Legislative Yuan for consideration. The general view of this situation was that the timing for Legislative Yuan consideration coincided with the ending of the rebellion suppression period and preliminary completion of constitutional reform work; thus, it is very difficult to say that this matter was not related to Hao Po-tsun's intention to "further consider" the NSB subordination issue.

Next, Li Teng-hui did not personally seize a dagger to confront his adversary head on. Instead he had Vice President Li Yuan-ts'u [2621 0337 4662] and NSB director Sung Hsin-lien [1345 1800 3425] fight this "holy war" for him. Reportedly, Li Yuan-ts'u went to the Office of the President regularly to offer advise to Li Teng-hui and to accept recommendations. His was the role of an infield strategist, which naturally was not difficult at all. However, most important, in his role as convener of the constitutional reform planning team, Li Yuan-ts'u was the one who stirred Li Teng-hui's iron will to act, and he was also the "final gatekeeper." For example, when presiding over the meeting of legal system subgroups, Lin Yang-kang [2651 3152 3263] referred more than once to "passing on the views of

higher authority" by which he meant Li Yuan-ts'u's views. The most recent "single organization, two stages" discussion of constitutional reform was one such example. In addition, Lin Yang-kang said enigmatically "this matter seems to have been discussed" in complaining about the rejection of that plan, but the person who rejected it was Li Yuan-ts'u.

As for NSB director Sung Hsin-lien, his role is that of outfield fighter. He must be responsible for plan collection and for controlling and channeling public sentiment. Particularly with regard to the NSB's orientation and subordination, Li Teng-hui is more completely reliant on recommendations from Sung Hsin-lien. According to an authoritative source, before the 23 January meeting of the "planning team" discussed the "position of the National Security Council and its subordinate organs, and the National Security Bureau," Sung Hsin-lien personally chaired a secret meeting at NSB headquarters at Yangming Shan to which a small number of people were invited, including those concerned in the NSB headquarters, and legal and political scholars. Reportedly, some important judges were also at the meeting. Discussions concerned the position and subordination of the NSB following the end of the rebellion suppression period. This conference reportedly had as its goal the preparation of a specific recommendation for presentation to Li Teng-hui. Although it is impossible to prove whether this recommendation is related to the "planning team" discussions of 23 January, at such a sensitive time, Sung Hsin-lien's actions must be more than just a timely coincidence.

Actually, Sung Hsin-lien has spent more than half a year's time trying to find a way out for Li Teng-hui and his NSB after the rebellion suppression period ends. For example, as long ago as 21 June 1990, Sung Hsin-lien personally chaired a seminar at the NSB's Yangming Shan headquarters (reportedly this was one of a series of seminars) to which were invited legal and political scholars, including Ching Chih-jen [5427 4249 0088], Kuo Jen-fu [6753 0088 1318], Huang Yueh-ch'in [7806 6390 2953], Li Ch'ang-kui [2621 7022 6307], Ts'ai Cheng-wen [5591 2398 2429], Su Yung-ch'in [5685 3057 2953], Li Nien-tsu [2621 1819 4371], and Chu Yun-han [2612 71890 3352]. They discussed legalization of the intelligence management system. On this occasion, there were no differences in views among the eight scholars about centralization of the intelligence control system, however, there were diametrically opposed views about the subordination issue.

Privately, however, Sun Hsin-lien has some ideas about centralization of the intelligence administration system, which are modeled on the U.S. Central Intelligence Agency for the reconstitution of a centralized "national intelligence agency." As for the subordination issue, Sung Hsin-lien feels it should be under the president, subject to the president's direct command. In addition, in September 1990, Sung Hsin-lien presented another plan about NSB subordination to Li Teng-hui. In this plan, Sung Hsin-lien suggested establishment under the

president of a "science and technology advisory office," and a "national security affairs committee," the latter to include aides and staff members in foreign affairs, military affairs, and intelligence appointed by the president. Under it would be the NSB as the supreme intelligence regulating organization, with functions like that of the U.S. Central Intelligence Agency, and responsible to the president.

It is not difficult to discern from Sung Hsin-lien's intentions during the past year and a half with regard to the future position and subordination of the NSB that he hopes that the NSB will be an organization possessed of supreme leadership authority, and that it should be established under the Office of the President. However, a high-ranking official who knows Sung Hsin-lien very well disclosed that, during discussions with Sung some days ago, Sung told him, "The pressure of work is so great," but he did not want to say just what he meant by this. Furthermore, Sun has not expressed a view about the subordination of NSB. But this person "optimistically" believes that "Sung is capable of turning in the direction that the president wants," because "Sung is very loyal to the president," he emphasized.

Various bits of evidence suggest that Sun is caught between Li and Hao. From an organizational standpoint, he must stand on the side of Li Teng-hui and do as Li Teng-hui says. In addition, speaking from the standpoint of personal friendship, there is possibly no chance for a change for the better in relations between Sung and Hao. In particular, after the position and subordination of the NSB became an open rift between Hao Po-tsung and Li Teng-hui on the 23d, that part of Sung Hsin-lien's anatomy that bears the stamp of Li Teng-hui has become more apparent. Furthermore, according to information from the NSB, a rather "surprising" contact occurred between Sung and Hao more than half a year ago. One evening not long after Li Teng-hui announced that Hao Po-tsung was to be premier, Sung Hsin-lien paid a quiet nighttime call on Hao Po-tsung, first for the purpose of congratulating him and second to discuss his own future role. However, in the course of the conversation, Hao Po-tsung casually mentioned something to Sung Hsin-lien that was fraught with profound meaning. Hao Po-tsung said, "You and I are both people that Mr. Ching-kuo promoted. In the future, neither you nor I can do anything unworthy of Mr. Ching-kuo." That evening, Sung Hsin-lien left, taking this sentence with him.

Li Teng-hui's decision to declare an end to the mobilization to suppress rebellion in May 1991 marks a major change for the development of constitutional government in Taiwan. However, for the high-level battles within the KMT, it might be a good time for everyone to fight over power. In the history of the KMT, the beginning of reform has frequently been the beginning of fighting.

### Sources of Supplementary Legislators' Extra Income

91CM0241A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 200, 13 Jan 91 pp 24-25

[Article by Chen Yu-hsin (7115 5940 9515): "We Only See Them Driving up in Brand Name Automobiles—Where Are the 'Golden Veins' That Supply These Riches?"]

[Text] A legislator, a veteran of many election campaigns, once pointed out that during a legislator's three-year term, he must devote the first year to the drudgery of repaying debts from his first election campaign, and in the second year he must begin accumulating funds for the next election campaign. The realities of a political career, which entails the bitter and wearisome business of raising money, starts many a legislator down the road to entangling political and commercial interests. Moreover, some legislators find that their incomes ordinarily fall short of expenses, or some have a hard time finding sources to cover their expenses; these concerns can be more vexing to them than the paralysis displayed by the Legislative Yuan in its deliberations.

In reality, the Legislative Yuan's ties between political and commercial interests, the hustle and bustle of lobbyists during the legislative sessions, and the various informal discussions and luncheon meetings arranged by legislators—such as when the legislature is deliberating laws to control the pharmaceutical industry and pharmacists or to revise import duty tariffs, issues with strong partisan interests—have long puzzled outsiders. However, the trouble stirred up in the legislature a few years ago by the "brotherhood of thirteen" in connection with revising banking laws led to much negative criticism by outsiders, and even brought about the incarceration of Tsai Chen-chou [5591 6591 3166], who played a leading role in the "brotherhood of thirteen," because of the 10th Credit Cooperative affair. The lesson from this affair has not at all stopped further linkings of political and commercial interests. It has merely made some legislators who entangle political and commercial interests more cautious, and it has allowed the link between political and commercial interests to be concealed in a shroud of mystery. For instance, this is done by locking up important documents in safe deposit boxes to prevent them from arousing society's criticism of someone's personal integrity or motivations as the person pursues certain political policies.

This mysterious nature is due to the combined protection of various means: First, contributions from enterprises are not shown as income in legislators' account books. It is also not like in Japan, where political contributions given to legislators will in some cases be handled by legislative assistants. In the Legislative Yuan, assistants change very frequently, and some legislators have minimal trust in their assistants. The legislators maintain their "close relationships" with enterprises in the form of very personal social intercourse. In this way,

a legislator's network of political and commercial ties cannot be perceived by his own assistant, let alone by the hostile eyes of an outside supervisory board of the national assembly.

Second, generally no legislator is sparing about revealing information on lower-level meetings and decisions of party committees; he reveals the information perhaps to comply with demands from his constituency or to enhance his connections with the news media. However, he will be completely tight-lipped about informal conversations with industrialists, because once the connection is exposed, even though it may not be shady, he would still have to worry that some people might view the connection as questionable. Should the relationship indeed be somewhat murky, he would not want to have his "special weaponry"—his financial sources—revealed, for this would enable people to easily discover the "mystery" in his political pursuits.

Furthermore, many legislators have investments in enterprises. For instance, many have close relations with Taiwan Plastics Corporation, and some are actually more like spokesmen for the Chang Jung Corporation. However, none of the legislators will admit this, because it would spoil the image of "objective aloofness" of their political pursuits. The enterprises also will not admit to close relationships with certain legislators, because political personalities always have political enemies, and if the enterprise admits to having a cooperative relationship with a certain legislator, it could arouse resentment on the part of that legislator's political enemies. In this atmosphere of "hating everything associated with one's enemies," any bill supported by the enterprise could take an unexpected turn half-way through the process. On the other hand, if an enterprise appears very rich, it might automatically bring some legislators—those who are critically pressed for money—to its door, making requests in a half subservient, half extortive manner, so that in the end the wealthy party must turn over some money to avert any personal misfortune.

Moreover, although government organs at times dislike legislators speaking for them, they frequently assume the utmost "protective" responsibility about links between legislators' political and commercial interests. Some organs, like the Ministry of Economics or the Ministry of Finance, and even some state-run industries, have lists of legislators that are favorably inclined toward them. However, they would not dare publish the lists, because they fear retaliation from the legislators. For instance, when an executive manager of Taiwan Sugar Corporation once revealed the name of a legislator and the dealings the company had with him, the two sides became irreconcilable enemies. Furthermore, other legislators who had in the past been spokesmen for enterprises, felt that the Taiwan Sugar Corporation was not much of an "interesting proposition" anymore. Thereafter, whenever Taiwan Sugar Corporation's demands were cut down in budget discussions, some legislators would immediately and wholeheartedly applaud.

However, even the most carefully protected computer software industry is also exposed to the dangers of having its secrets revealed and products pirated. It is the same with legislators' links between political and commercial interests; some clues can be found. Although we may not be able to know the whole network of relationships, we can know more or less whether a legislator's political and commercial relations are above board, and which party in the commercial world receives the most cooperation from him.

Definitely the most common criterion to use in any such evaluation, and the easiest to detect, is the content of the legislator's speeches and the efforts he makes in supporting certain bills. When amendments to the import duty tariff were deliberated, some legislators supported the interests of their constituency or consumers, but other legislators spoke for certain domestic factories. They would not agree to any large reduction in import duties for certain products—reductions which might endanger the vested interests of domestic factories. Also, still other legislators are like the puppets of certain trading companies, and make every effort to reduce customs tariffs for certain special products.

Dealings between legislators and enterprise owners occur privately: legislators are given shares that do not appear on the market, or they are appointed as a corporation's director or deputy chairman of the board. They are not responsible for actually conducting business affairs, but they are given perks. There are also legislators who advise some companies and receive certain fixed remunerations as advisor fees. This is the enterprise owner's kickback to the legislator or his political investment in the legislator.

A legislator's monthly income is somewhat over 120,000 yuan, and every legislator complains that this leaves him poor. By examining expenditures, we can also find out whether there is anything abnormal about the political contributions a legislator receives.

The fact that some legislators complain of poverty and yet can still drive imported cars during their term of office is something that arouses people's suspicions. The business of "limousine scholarships" between enterprise owners and legislators can take two forms. One is that the enterprise owner provides the legislator with a limousine, including a driver whose salary is also paid by the enterprise owner. This is a rather impudent and brazen way of doing things. The second form is that the enterprise owner buys a limousine for the legislator to use, or the legislator buys the limousine with the political contribution provided by the enterprise owner. This method is much more "secure" as far as the legislator is concerned, and it is also more difficult to use the car registration to discover with which particular enterprise the legislator has established his connection.

Similarly, if a legislator wants to set up an extensive establishment of secretaries and assistants—some legislators hire as many as 10 people—and yet has a small

fixed income or does not himself own an enterprise, there has to be some "inside story" not revealed to the outside world. This indirectly reveals that the legislator enjoys a fixed source of contributions. This may be the total of many small contributions from constituents, but it may also come from the backing and support of one enterprise owner.

Some legislators are from electoral districts outside of Taipei City, but they have acquired property in Taipei during their term of office; this is also a rather abnormal phenomenon. Although it certainly facilitates their commute to work, it is quite a large expense. It is indeed an incredible achievement if a legislator who has never been in business for himself and who has no extra income is able to buy real estate that in some cases may cost as much as 10 million yuan.

Affairs in the Legislative Yuan will gradually pass into the hands of the supplementary legislators. In addition to taking over leadership power, with all the political power this entails, supplementary legislators will also take over the resources that enterprise owners invested in senior legislators. Moreover, a certain number of enterprises will change their method of trying to break into markets single-handedly and will now form entities which combine political and commercial interests, something that will be even more profitable for them. They may also strengthen their investments in the people's representatives at the political center and thereby deeply imprint the Legislative Yuan with the mark of a close relationship between political and commercial interests.

The situation revealed to us is thus one in which legislators complain loudly about their poverty, and at every session of the Legislative Yuan they try their utmost to increase their allowances by adding assistance fees and other benefits. However, it is also a situation in which we see them traveling about in ever larger and more costly limousines, continuously increasing the number of secretaries they have, and living in ever more luxurious houses.

One newly elected supplementary legislator pointed out that when he first came to the Legislative Yuan, he had large expenses but a rather limited income, and it became extremely difficult to resist the temptation of linking political and commercial interests. There are, of course, many who preserve the moral integrity of the Legislative Yuan, but their voices are rather weak. Because those legislators with a history of linking political and commercial interests can muster much larger resources, we see that "the poor are getting poorer" and "the rich are getting richer" in the Legislative Yuan. In political terms, the situation is not much different.

Some say that after the supplementary legislators gradually become the core force in the Legislative Yuan and Taiwan's elections in turn assume a different character, those who lose elections will go bankrupt because of heavy campaign debts. Yet no one ever says that those who are successful will go bankrupt because of excessive

election campaign debts. This reveals somewhat that the links between political and commercial interests have by now become the dominant trend in the Legislative Yuan. If no appropriate norms are set up and there is no change, people worry very much that the reputation and representative quality of the Legislative Yuan will go bankrupt before the legislators themselves do.

### Exports Drop to U.S. in March

*OW0904153591 Taipei CNA in English 0835 GMT  
9 Apr 91*

[Text] Taipei, April 9 (CNA)— Republic of China [ROC] exports to the United States stood at U.S.\$1.51 billion in March, a record low 26.5 percent of the nation's total shipments, according to official statistics.

Exports to the United States reached their peak in 1984 when the United States absorbed approximately 50 percent of ROC exports, the Council for Economic Planning and Development (CEPD) said.

The ROC's trade surplus with the United States, long its largest trade partner, fell to U.S.\$380 million in March.

The figure was about half of Taiwan's trade surplus with Hong Kong, and if the trend continues, 1991 might see the ROC trade surplus with America decline by a record percentage, CEPD predicted.

Statistically, the United States is gradually losing to other markets, but CEPD suspected that a large part of exports to Central and Southern Americas had been transshipped to the United States.

In the first two months of this year, exports to Central and Southern America rose a stunning 61.4 percent and 76.2 percent respectively over a year ago.

The China Mainland too might have played a role in transshipping Taiwan goods to the America, CEPD added.

### Labor Officials Begin 5-Nation European Tour

*OW0704004191 Taipei CNA in English 1533 GMT  
6 Apr 91*

[Text] Taipei, April 6 (CNA)—A delegation of Republic of China labor officials left Saturday for a two-week European tour which will take them to France, Germany, Switzerland, Belgium and the Soviet Union.

Headed by Chao Shou-po, chairman of the Cabinet Labor Affairs Council, the group will study the labor policies of the European countries during the fact-finding visit.

Chao said he and his colleagues were especially interested in foreign worker administration policies of France and Germany since the Republic of China will also open its labor market to foreigners after an employment and service law is enacted.

While in the Soviet Union, Chao said, the group will meet with trade union officials to understand the situation of the coal miner strike which began five weeks ago.

"We might learn something from them that can be useful in handling labor-management disputes in our country," he told reporters at the airport.

### Economics Minister Leaves for U.S. Visit

OW0704000891 Taipei CNA in English 1530 GMT  
6 Apr 91

[Text] Taipei, April 6 (CNA)—Republic of China [ROC] Economic Affairs Minister Hsiao Wan-chang left for the United States for the annual board meeting of the USA-ROC Economic Council.

Hsiao told reporters at the airport he will stress the importance of economic and trade cooperation between the Republic of China and the United States during the meeting.

He will also take advantage of the opportunity to thank the USA-ROC Economic Council, a private trade promotion organization, for its efforts to promote trade and friendship between the two countries.

Before returning home, Hsiao will visit the Silicon Valley in San Francisco where he will invite Chinese scientists and experts to help with the country's efforts to upgrade its industry.

### Consumer Prices Drop in March

OW0604090791 Taipei CNA in English 0836 GMT  
6 Apr 91

[Text] Taipei, April 6 (CNA)—Domestic consumer prices dropped 0.24 percent in March from February after seasonal adjustment, the government statistical agency reported.

Prices were 4.19 percent higher than in March 1990, the directorate general of budget, accounting and statistics said.

Food prices, transportation costs, educational and entertainment bills all dropped in March, while housing rents increased.

Altogether, consumer prices rose 4.69 percent in the first quarter of this year.

March wholesale prices fell 0.3 percent from February, but grew at an annual rate of 2.76 percent.

Import prices saw an annual growth of 5.83 percent, although they fell 0.43 percent from February.

Export prices gained 0.28 percent from February. March export prices increased 3.98 percent over the same month last year.

### Officials, Businessmen Differ on Capital Outflow

OW1504114791 Taipei CNA in English 0759 GMT  
15 Apr 91

[Text] Taipei, April 15 (CNA)—Ranking economics officials are confident that last year's huge capital outflow will not be repeated this year. Government-approved outbound investment totaled 1.6 billion U.S. dollars in 1990, but the real figure is widely believed to be much higher.

Li Kao-chao of the Council for Economic Planning and Development said the "macro-environment" in the Republic of China, particularly social order, is greatly improved, and recent parliamentary chaos is not expected to have a severe influence on the economy.

He cited the stock market's "nonchalant" response in support of his optimism. The stock index has been rising in spite of the brawls in the National Assembly and the Legislative Yuan, mainly because it reflects "economic fundamentals," Li added.

Hou Chia-chu, a CEPD adviser, agreed with Li, saying that people are no longer excited or scared by fist fights in parliamentary halls, so the strife is not expected to trigger an increased outflow of capital.

The business community, however, is worried that a new wave of "capital flight" is likely in the aftermath of turbulence in the nation's legislature.

A group of business leaders issued a joint statement over the weekend stressing that "political instability is closely linked to capital outflow."

They cited Ministry of Economic Affairs statistics as showing that government approved overseas investment totaled 681 million U.S. dollars during the first two months of 1991, a remarkable 385 percent increase over the same period of last year.

Ministry officials are also worried that the 8.6 percent drop in domestic private-sector investment last year might suggest that "something had gone wrong."

Hou said that though people may have become "immune to" political strife, if it continues to delay the passage of such important laws as rules on relations between people on both sides of the Taiwan Straits, "grave consequences" may result.

He said he would remind "lawmaking dignitaries" that if their strife or personal interest delay the enactment of major bills, economic development will be affected.

### Computer Industry Output To Top \$28 Billion by 2000

OW1504133091 Taipei CNA in English 0838 GMT  
15 Apr 91

[Text] Taipei, April 15 (CNA)—The Republic of China [ROC] will be a major force in the development of

information industry by 2000, when its information industry output is expected to reach 28 billion U.S. dollars.

The Executive Yuan and the Institute for Information Industry (III) have drafted a long-range plan for the industry's development.

The plan foresees the nation's information industry enjoying a domestic market worth 7.7 billion U.S. dollars and spending 1.8 billion U.S. dollars on R&D [research and development] in the year 2000.

Chen Ching-wen, an III director in charge of market information, forecasts the industry to grow 18 percent this year, compared with 12 percent in 1990.

Chen also foresees the ROC information industry's world market share increasing from its current 2.0 percent to 2.8 percent in 1995 and to 3.1 percent in 2000.

He noted that the industry's growth will be "consumer-oriented," driven by its ability to satisfy consumer needs for the industry's technologies and services.

He said that Japan rapidly developed its information industry after the government and private sector reached a consensus on development goals and strategies.

Chen said ROC computer businessmen should learn from Japan's example in building self-sufficient production and sales systems.

He advised ROC business people to thoroughly understand industry market trends in the coming five to 10 years and to stop competing with each other for the industry's low-end markets.

### Shares of 2 State-Run Corporations on Market

OW1503081391 *Taipei International Service in English*  
0200 GMT 14 Mar 91

[Text] The Commission of National Corporations said on Tuesday the ROC [Republic of China] Government will sell about 370 million shares of state-run China Steel Corporation and 170 million shares of China Petrochemical Development Corporation in April and May.

### Taipei Plans To Promote Trade With 5 Regions

OW1504152891 *Taipei CNA in English* 0829 GMT  
15 Apr 91

[Text] Taipei, April 15 (CNA)—The Republic of China government plans to strengthen trade relations with nations in the Middle East, Eastern Europe, Southeast Asia, Latin America, and Africa in fiscal 1992.

After the plan is put into force on 1 July, the country's trade with the "five newly emerging regional markets" is expected to increase in big steps, a Board of Foreign Trade Official said Monday.

As a part of the efforts to win a share of the reconstruction market in the post-Gulf war Middle East, the semi-official China External Trade Development Council (CETRA) is organizing two trade delegations to visit the region in late April, the official said.

They will be followed by additional groups which will visit the Middle East to promote bilateral trade or to take part in international trade fairs there to pursue business opportunities, he added.

Efforts will be made to establish trade offices in major East European countries, the region where Taiwan's trade is growing fastest, the official said. Domestic companies will also be encouraged to work together to tap markets there.

In Southeast Asia, he said, a Taipei trade center was established 15 April in Hong Kong to broaden the already close trade relations with the colony and to pave the way for increased indirect trade with the China mainland.

Besides Hong Kong, the official added, Thailand, Malaysia, the Philippines and Indonesia will also be targets for increased trade promotion, even though bilateral trade and investment relations have already grown substantially in recent years.

With Latin American countries also moving toward regional economic integration, the Republic of China will increase investments in the Caribbean to cope with the new economic realities in the region, the official added.

In Africa, where Taipei only has sizable trade with such countries as South Africa, Egypt and Nigeria, efforts will be made to tap other potential markets, he said.

### Banker on Taiwan as Regional Financial Center

OW2304130691 *Taipei CNA in English* 0839 GMT  
23 Apr 91

[Text] Taipei, April 23 (CNA)—The Republic of China [ROC] on Taiwan is now in a good position to develop itself into a regional financial center, Bank of Communications Chairman Liang Kuo-shu said.

At a time when a looming international monetary crunch is expected to appear in the coming years, Liang said if Taiwan can sustain a trade surplus, the effort to become a regional financial center will be a goal not out of its reach.

Speaking at the 15th annual meeting Monday of the ROC-USA Economic Council, Liang said that the global demand for capital is far greater than before. Economic reforms in the Soviet Union and other East European countries need large sums of capital, debt-ridden Latin American countries still need loans to improve their economies and post-war Middle East countries need more money for rehabilitation work, he noted.

After the unification of Germany, West Germany spent much more money than expected to help East Germany, Liang said. The U.S. economy is still recovering and Japan's trade surplus has shrunk. The ROC should grasp at the opportunities to develop itself into a financial center, and a constant trade surplus will be a good move toward the goal.

The ROC should take appropriate measures to ensure the growth of its foreign trade and trade surplus, and then make effective use of its abundant capital to promote the ROC's status in the world community by becoming a capital-supplying country.

He said that although the time is not yet ripe for the new Taiwan dollar to become an international currency, it should be a long-term goal. To open up the financial market further and to expand the market's scale will also help Taipei to quickly become a regional financial center.

#### Taiwan To Host 1994 World Trade Conference

OW1804104691 Taipei CNA in English 0759 GMT  
18 Apr 91

[Text] Taipei, April 18 (CNA)—The Republic of China will host the 1994 annual conference of World Trade Center Association (WTCA) in Taipei after being chosen over 16 competitors.

Wang Chang-ching, chairman of the Taipei World Trade Center, said that holding the conference in Taipei will help improve the city's status in the international community and give the world a better understanding of the economic scene in the Republic of China.

Wang said that more than 1,000 delegates from around the world organization are expected to participate in the autumn conference.

WTCA, established in the United States in 1968, promotes cooperative relations in trade, economics and investment among countries.

The private international trade and economics organization has branches in 60 countries and areas with 228 members. The Republic of China joined the body in 1980.

WTCA also decided to hold its 1995 and 1996 annual conferences in Peking and Kuala Lumpur.

#### Official Explains Semifinished Imports From Mainland

OW1403143691 Taipei International Service in English  
0200 GMT 14 Mar 91

[Text] P.K. Chiang, spokesman for the Ministry of Economic Affairs, said Wednesday the Executive Yuan has agreed to allow the indirect import of semifinished products from Mainland China. And the ministry has

asked the Industrial Development Consultation Committee to have an overall review before the study on what items should be permitted.

Chiang said: The overriding principles on the indirect imports of Mainland China semifinished products are as follows: they should not endanger national security or pose competition to similar items produced on Taiwan. Also, they should be conducive to enhancing local manufacturers' international competitiveness. The government is considering the opening to have local makers establish a well-rounded division of labor across the Taiwan Strait. It is not intended to pave the way for direct investment or trade between the two sides, he stressed.

#### Corporation Secures Loan for Takeover in U.S.

OW1304091791 Taipei CNA in English 0821 GMT  
13 Apr 91

[Text] Taipei, April 13 (CNA)—President Enterprises Corp. Friday secured a five-year 130 million U.S. dollar loan from 18 domestic and foreign banks to refinance its acquisition of an American food company.

The loan facility will permit the refinancing of a 1990 bridging loan to a subsidiary of President Enterprises for the acquisition of Wyndham Foods Inc., a cookie manufacturer in the United States.

The 18 banks participating in the loan include Chang Hwa Commercial Bank of Taiwan, Banque Nationale de Paris of France, the Mitsubishi Bank of Japan, Dresdner Bank AG Hong Kong branch, Osterreichische Landerbank of Austria, and Standard Chartered Bank of the United Kingdom.

The loan agreement sets a good precedent for Taiwan enterprises which deserve to use international financing to invest abroad, said a spokesman for Standard Chartered Asia Ltd., manager of the loan facility.

#### ROK Trade Center Set To Boost Bilateral Trade

OW0803140191 Taipei International Service in English  
0200 GMT 8 Mar 91

[Text] South Korea and Taiwan will boost bilateral trade this year in an effort to cut their growing and politically sensitive trade deficits with Japan, an official said on 6 March.

The Korean Trade Center in Taipei says two business groups from Seoul will visit Taiwan on 11 March and 7 April to buy goods, including computer components and transport equipment. Center director Kim Hong-ji said his government was eager to cut its trade deficits with Japan which surged to about \$5.9 billion last year from \$4 billion in 1989.

Taiwan's China External Trade Development Council says the island's businessmen will step up purchases of machinery, appliances, and agriculture products from South Korea this year.

Both Seoul and Taipei have complained strongly to Tokyo about their bilateral deficits in recent years, and the issue has become a major irritant in their relations with Japan.

**Taipei Expects Improved Relations With Rome**

*OW0904154591 Taipei CNA in English 0758 GMT  
9 Apr 91*

[Text] Taipei, April 9 (CNA)—With an Italian Minister visiting Taipei for the first time in 20 years, Republic of China [ROC] officials said they see hopes of a breakthrough in substantive relations between the two countries.

Italian Public Works Minister Giovanni Prandini, who arrived in Taipei Saturday for a six-day visit, met with ROC economics officials and toured the Taipei World Trade Center Monday.

During a meeting with Vice Economic Affairs Minister Lee Shu-chiu, Prandini and Lee discussed ways to "strengthen bilateral trade relations and technological cooperation," according to ministry officials.

Prandini told Lee that Italy wants to have a role in the Republic of China's six-year development plan, which will spend an estimated NT\$8.2 trillion (about U.S.\$302 billion) on more than 700 projects between 1991 and 1996, they said.

Lee in turn suggested that the two countries cooperate in such industries as chemicals, textiles, pharmaceuticals, environmental protection and automobiles, the officials said.

Later in the day, Prandini called at the cabinet-level Council for Economic Planning and Development where both sides held comprehensive talks on Italy's possible role in development projects.

Italian officials said they are willing to share both technology and experience if they take part in some of the public construction projects, especially those in transportation.

The enthusiastic Italian attitude made Chang Lung-sheng, vice chairman of the council, optimistic about an eventual breakthrough in long stagnant relations between the two countries which suspended diplomatic ties with each other in 1970.

Prandini's visit here might be the beginning of improved relations between Taipei and Rome, Chang said.

In 1990, ROC exports to Italy totaled U.S.\$985 million while imports reached U.S.\$817 million. The two-way trade of U.S.\$1.8 billion accounted for about 10 percent of the ROC's trade with the European Community.

Improved economic and trade relations with Italy will also help the country in the dealings with a single European market after 1992, Chang said.

**Italian Public Works Minister Plans Visit**

*OW0404115991 Taipei CNA in English 0806 GMT  
4 Apr 91*

[Text] Taipei, April 4 (CNA)—Italy Public Works Minister Giovanni Prandini is scheduled to arrive in Taipei Saturday for a six-day visit at the invitation of Communications Minister Chang Chien-pang.

Prandini, the first ministerial-level Italian official to visit here in the 20 years since the severance of diplomatic ties between the Republic of China [ROC] and Italy, is accompanied by a group of 14 people including parliamentarians, public works officials, industrialists and television news reporters.

Vincenzo Masi, representative of the Italian Trade and Economic Center in Taipei, said that the ROC's ambitious 1991-1996 six year national development plan has been widely reported in European major mass media. Industrialists of his country, noted for high technology development in construction work, hope to seek cooperative opportunities through the visit here.

Masi said trade and economic relations between the two countries are closer than before and his country is considering issuing visas in Taipei for ROC visitors to Italy in the shortest time possible.

Among Italian export items to the ROC, Masi said machinery goods accounted for 30 percent and automobile and chemical products for 25 percent. He believes upscale Italian consumer goods have a potential market share here as a result of the ongoing upgrading of the ROC people's living standard. Furthermore, Masi said that his country hopes to enhance transference of its technical know-how here.

During his stay here, Prandini will call on Foreign Minister Chien Fu, Chairwoman of the Council for Economic Planning and Development Shirley Kuo, and Communications Minister Chang Chien-pang. He will also be conferred an honorary doctorate of philosophy by Fu Jen Catholic University.

**Italy To Grant Merchant Ships Preferential Rates**

*OW1704135191 Taipei CNA in English 0905 GMT  
17 Apr 91*

[Text] Taipei, April 17 (CNA)—Italy has agreed to offer preferential port service rates to Republic of China [ROC] merchant ships, the Ministry of Communications reported Wednesday.

The ROC asked Italy to offer preferential treatment to its merchant vessels in 1987 when government authorities,

shipping associations and individual shipping companies all approached the Italian Government to ask for better treatment. Their efforts at that time, however, were unsuccessful.

A major breakthrough was scored in February this year when the Venice Harbor Bureau chief, Gaspare Ciliberti, visited Taiwan to sign an agreement with the Kaohsiung Harbor Bureau establishing sisterly ties between the two ports.

At that time, Chu Yung-chuan, director of the Navigation Department under the Ministry of Communications, told Ciliberti of the ROC's strong dissatisfaction with Italy's discrimination against its merchant ships, and stressed that Taipei might adopt similar measures against Italian vessels if Rome failed to respond favorably. Ciliberti agreed to help resolve the problem after returning to his country.

The ROC representative office in Italy informed the Ministry of Communications Tuesday that Italy has now agreed to offer preferential port service rates to Taipei-based carriers.

Navigation administrators said the move marks another step forward in bettering substantive ties between the two countries following the trend-setting visit to Taipei of Italian Public Works Minister Giovanni Prandini between April 6 and April 11. Prandini was the first ministerial-level Italian official to visit here since Rome switched diplomatic recognition to Peking in 1970.

#### **Imports of Capital Goods Down**

*OW0504085191 Taipei CNA in English 0749 GMT  
5 Apr 91*

[Text] Taipei, April 5 (CNA)—ROC [Republic of China] imports increased sharply in the first quarter, but imports of capital goods fell 6.8 percent during the three months compared with the same period last year, an official of the Council for Economic Development and Planning said Friday.

The official, who did not want to be named, worried that the decline may slow the country's efforts to upgrade its industry. Local industries might then not be able to transfer products into more profitable upper end ones.

During the first three months of 1991, the country's imports rose 12.9 percent from the same period last year, but 73.7 percent of the total, or 11,180 million U.S. dollars, was in industrial and agricultural raw materials, up 22.2 percent from the previous year.

Imports of capital goods, however, totaled only 3,380 million U.S. dollars and declined in both February and March.

The official said that the sharp increase in raw material imports means that prospects for the country's exports have improved significantly, but sluggish imports of

capital goods may cut the competitiveness of local products in international markets.

Meanwhile, the bureau of industrial development said that 528 new factories began operations in February, down 18 percent from the previous month, and 291 factories closed down, up 35 percent.

The bureau said that the increase in factory closings might have resulted from increasing labor costs.

#### **Bank of Taiwan To Open 7 Overseas Branches**

*OW0804114391 Taipei CNA in English 0903 GMT  
8 Apr 91*

[Text] Taipei, April 8 (CNA)—The Bank of Taiwan (BOT) will set up seven overseas branches this year as part of its ambitious plan to develop a worldwide financial service network, bank officials said today.

The planned footholds are representative offices in Tokyo, London and Frankfurt; a branch office in Los Angeles; a branch office and a subsidiary in Amsterdam; and a subsidiary in Johannesburg.

The subsidiary in Amsterdam will prepare for the penetration of the European Community which is scheduled to be unified into a single market in 1992, the officials said. A bank branch opened before that deadline will be allowed to set up branches in all EC member countries after they become a unified market.

The Bank of Communications and the International Commercial Bank of China (ICBC) already established subsidiaries in Amsterdam last year.

The BOT's affiliate in Johannesburg will be the first Taiwan-invested bank in South Africa, the officials said.

The opening of the BOT representative office in Tokyo will mark a major step forward in financial ties between the Republic of China and Japan. Chang Hwa Commercial Bank currently maintains a representative office in Tokyo while the ICBC operates branches in Tokyo and Osaka.

#### **Businessmen Consider Joint Ventures in Singapore**

*OW2304171091 Taipei CNA in English 1604 GMT  
23 Apr 91*

[Text] Singapore, April 23 (CNA)—Republic of China [ROC] companies wishing to invest in Southeast Asia should consider establishing joint ventures with their counterparts in Singapore, Douglas Hsu, president of the ROC's Far Eastern Textile Group said here Tuesday.

Hsu, head of a [word indistinct] member delegation of Young Presidents' Organization [YPO] of the ROC, said in a breakfast meeting attended by representatives of the

Chinese community here, that the Singapore Government is offering attractive tax treatments to foreign companies setting up operational headquarters in the island country.

By setting up operational headquarters and joint ventures here, he said, ROC companies would find it easier to get access to the ASEAN (Association of Southeast Asian Nations) and Western markets, taking advantage of Singapore's special position as member of both ASEAN and the Commonwealth.

Hsu and other members of the YPO, an organization of successful businessmen aged 40 and under, arrived here Sunday to explore investment possibilities in the region.

They met their Singapore counterparts in a forum [words indistinct] discussions on ways to strengthen cooperation between the business sectors of the two countries.

Tuesday morning, the delegation left here for a one-day visit to Batam, an Indonesian island about 20 miles away from Singapore, to see for themselves the investment climate there.

#### Trade Mission To Visit Middle East in June

OW2304104091 Taipei CNA in English 0756 GMT  
23 Apr 91

[Text] Taipei, April 23 (CNA)—To develop business opportunities in the Middle East, a Republic of China trade promotion delegation will visit the United Arab Emirates, Iran, Jordan and Saudi Arabia in June.

The Taiwan Electric Appliance Manufacturers Association, organizer of the delegation, said that the tour, to include visits to six big cities in the region, will help local manufacturers to compete for a share in the post-Gulf war reconstruction market of Middle East.

Building materials will be greatly needed there in the wake of the war [as received], and demand is estimated to reach hundreds of billions of dollars.

Both the Board of Foreign Trade (BOFT) and the China External Trade Development Council (CETRA) have adopted measures to help locals cash in on the large post-war reconstruction.

The BOFT, for instance, recently has sent two trade missions to the Middle East to explore business opportunities there. The Ministry of Economic Affairs has also directed the state-run BES Engineering Corp to participate in the post-war rehabilitation of Kuwait.

For its part, CETRA has signed a mutual assistance agreement with the Sharjah Chamber of Commerce and Industry of the United Arab Emirates. Under the pact, both sides will help each other to collect market information, to participate in trade shows and to arrange for trade missions.

#### Commercial Office To Open in Canberra

OW1603170991 Taipei International Service in English 0200 GMT 15 Mar 91

[Text] A spokesman for Australian Foreign Minister Gareth Evans Wednesday said Australia has granted Taiwan permission to open a commercial office in Canberra, the capital of Australia.

The spokesman said the Australian Government had indicated its approval several weeks ago. The ROC [Republic of China] has been pressing to expand its commercial representation in Australia for some months, and has been negotiating for direct flights between the two countries.

Evans' spokesman said commercial representation for Taiwan "was not linked in any way" with the issue of direct flights. The move comes despite Mainland China's sensitivity to any strengthening of diplomatic or similar ties between Canberra and Taipei.

#### North Africa Seeks Taiwan Business Investment

OW2404112591 Taipei CNA in English 0758 GMT  
24 Apr 91

[Text] Taipei, April 24 (CNA)—Morocco has sent trade officials here to encourage Taiwan businessmen to invest in the north African country, trade sources said.

Morocco welcomes Taiwan businessmen, especially in electronics, to establish plants there. With Taiwan's technology and Morocco's cheap labor, the sources said, electronic exports to West Europe would be profitable.

The north African country also hopes Taiwan can share advanced techniques with Morocco in agriculture and fishery industries in order to upgrade Morocco's production techniques in these fields.

In response to a China External Trade Development Council [CETRA] trade promotion campaign in north African countries which began late last year, several trade officials from that area have visited here. They welcome Taiwan businessmen especially in aquaculture, textiles and electronics to establish plants in their countries. With cheap local labor and no export quota restrictions for U.S. and European markets, the sources said north African countries can be a springboard for Taiwan manufacturers to enter European and African markets.

In order to develop business opportunities in north Africa, CETRA organized several trade promotion delegations to visit there during the past six months and participated in trade exhibitions in Tunisia, Egypt and Morocco to introduce Taiwan products. The moves have helped people in that region gain a better understanding of the ROC's [Republic of China] economic progress and products, sources said.

**Exports to Europe Increase During Jan-Mar**

*OW2204113291 Taipei CNA in English 0924 GMT  
22 Apr 91*

[Text] Taipei, April 22 (CNA)—Republic of China [ROC] exports to Europe continued to grow rapidly in the first quarter of this year, while its imports from the old continent slowed because of lax domestic investment willingness, trade sources said.

Government statistics show ROC exports to Europe rose 29 percent to 3.55 billion U.S. dollars in the January-March period. Sales to Holland, Germany and Spain soared the most spectacularly, up 32 percent, 46 percent and 49 percent respectively.

Imports from European countries, however, climbed a barely perceptible 0.4 percent to 2.65 billion U.S. dollars during the same period. As a result, the ROC's first quarter trade surplus with the region zoomed to 900 million U.S. dollars from 137 million U.S. dollars a year before.

The Euro-Asia Trade Organization (EATO) believes that the domestic economic slowdown and lower investment willingness were the major reasons behind the slow growth in ROC purchases from Europe. Imports of European-made machinery and luxury goods, including cars and high fashions, declined substantially during the three-month period.

The widening trade gap has caused concern in European countries, particularly those seeing their exports to Taiwan decline in the first quarter.

Among European countries, Great Britain has for years had the largest trade deficit with the ROC. Taiwan exports to Britain increased 17 percent in the January-March period, while its imports dropped 9 percent. In order to narrow its trade gap, Britain is actively vying for construction contracts in the ROC's multi-billion-dollar six-year national development plan. It will also send 12 trade delegations to Taipei this year to promote sales of British goods in Taiwan markets.

Germany has been the ROC's top trading partner in Europe. Taiwan sales to Germany have grown rapidly since that country's reunification last year. ROC shipments to Germany registered a hefty 46 percent increase in the first three months of 1991.

ROC exports to Spain surged 50 percent in the first quarter to approach the 200 million U.S. dollars mark, while imports from that southern European country declined 10.4 percent to 37 million U.S. dollars. The Spanish Chamber of Commerce here said it will accelerate promotional efforts to help Spanish businessmen tap Taiwan markets.

**Trade Deficit Widens With Japan**

*OW1104125291 Taipei CNA in English 0807 GMT  
11 Apr 91*

[Text] Taipei, April 11 (CNA)—The Republic of China's [ROC] trade deficit with Japan rose 21.8 percent to 2.08 billion U.S. dollars in the first quarter of 1991, the Council for Economic Planning and Development [CEPD] reported Thursday.

Both figures were historic highs for a single quarter, the council said.

Taiwan incurred a trade deficit of 7.66 billion U.S. dollars with Japan in 1990, up 10 percent from 1989. If the first-quarter trend continues, CEPD officials believe, Taipei's trade imbalance with Tokyo is likely to exceed 8 billion U.S. dollars this year.

Also noteworthy was a hefty increase in the ROC's January-March trade surplus with Europe. The surplus reached 900 million U.S. dollars, a five-fold increase over the same quarter of 1990.

By contrast, Taiwan's trade surplus with the United States dropped a significant 28.6 percent to 1.34 billion U.S. dollars during the three-month period.

**Auto Parts Makers Asked To Reexport to Japan**

*OW2404104591 Taipei CNA in English 0817 GMT  
24 Apr 91*

[Text] Taipei, April 24 (CNA)—The Ministry of Economic Affairs has demanded that local automobile parts manufacturers who have signed cooperation contracts with Japanese firms sell at least five percent of their products to Japan this year.

Ministry officials said those who fail to do so will be asked to add an article to their contracts next year urging Japanese automobile makers to honestly transfer technology to their Republic of China [ROC] partners.

They said the measure, aimed at narrowing the trade gap between the two countries, is more of an "encouraging" than "mandatory" nature.

Yang Shih-chien, director of the Industrial Development Bureau, will meet next week with domestic auto and parts makers to discuss ways of achieving the government's goal.

Yang will also visit Japan next month to solicit the support of 10 major Japanese car makers, including Toyota, for the ROC move and to ask them to increase their purchases of parts and components made by their Taiwan partners.

Last year, ROC auto parts makers, known for their "export competitiveness," shipped only 200 million NT [new Taiwan] dollar worth of products to Japan, a minuscule one percent of the amount they imported from Japan.

Auto parts and components alone accounted for 900 million U.S. dollars of the country's 7.7 billion U.S. dollars trade deficit with Japan in 1990, Vice Economics Minister P.K. Chiang said.

### Japanese-Funded Firms Required To Sell More to Japan

*OW2404111691 Taipei CNA in English 0821 GMT  
24 Apr 91*

[Text] Taipei, April 24 (CNA)— The Ministry of Economic Affairs will strictly require electric home appliance dealers and manufacturers associated with Japanese companies to increase their sales of Taiwan-made products to Japan in order to narrow the widening trade gap between the two countries.

Vice Economic Affairs Minister P. K. Chiang met with representatives of 26 Japanese-invested home appliance companies in Taiwan to discuss ways and means to promote exports to Japan.

Chiang said the 26 Japanese wholly-owned subsidiaries or joint-ventures here imported some one billion U.S. dollars in brand-name household appliances from Japan last year, while they shipped only [figure indistinct] dollars worth of Taiwan products back to Japan.

Starting this year, those companies will be required to annually sell back to Japan locally-manufactured goods worth up to 25 percent of their similar imports from that country.

Major importers of brand-name Japanese home appliances must annually also export Taiwan products worth 10 to 20 percent of their Japanese imports, the exact percentage depending on the amount of their annual imports.

Chiang said the requirements will be enforced on a long-term basis, and the ministry will regularly review the results of the "re-export" promotional plan and will assist the Japanese-invested ventures to meet their export requirements, he added.

The vice minister noted that Taiwan imports an average of \$4.28 billion in finished Japanese home appliances annually and relies even more heavily on Japanese supplies of components and parts, a major factor contributing to Taipei's huge trade deficit with Japan.

### CPC Discovers Natural Gas in North

*OW1604124691 Taipei CNA in English 0943 GMT  
16 Apr 91*

[Text] Taipei, April 16 (CNA)—Chinese Petroleum Corp. (CPC) announced it has found natural gas in Tahu, Mioli county in northern Taiwan.

The natural gas field, which CPC began drilling in June 1990, is estimated to have a daily capacity of 116,000 s cm.

CPC said that after pipeline and other equipment are installed, the natural gas field will be commercially tapped.

CPC now has nine exploration projects planned for this year.

### New Way Found To Conserve CFC

*OW2404104791 Taipei CNA in English 0812 GMT  
24 Apr 91*

[Text] Taipei, April 24 (CNA)— The Republic of China efforts to conserve chlorofluorocarbon (CFC), an element widely used in industry but condemned as a killer of the atmosphere's ozone layer, are beginning to pay off.

The energy and resources laboratories (ERL) of the government financed Industrial Technology Research Institute announced Tuesday the successful development of a "multifunctional refrigerant recall system."

The device, ERL said, is capable of extracting coolant used in car air conditioners. Coolant is now released randomly into the air when conditioners are repaired or thrown away. This has led to a marked increase of CFC in the air and subsequent damage to the ozone layer. CFC is also used as spray-can propellants and industrial solvents.

Alerted to the damage being done to the ozone layer which protects humans from ultraviolet radiation, 37 countries have signed the 1987 Montreal protocol to reduce the use of CFC.

Dr. Yang Jih-chang, ERL director, said the new recall system will cut the use of CFC here. Taiwan consumes about one percent of the CFC produced in the world.

Yang warned, however, that CFC imports are rising at an annual rate of 20 percent, and that with the upgrading of living standards, CFC consumption might increase even faster in the future.

He noted that several local machinery manufacturers are keenly interested in cooperating to make the innovative, whose cost is between one-half and two-thirds that of similar products developed abroad. The local market is estimated at 300 million NT [new Taiwan] dollars (some \$11 million).

Application for patent is already underway, Yang noted.

**Local XINHUA Head Fears Deficits in 1997  
Runup**

*HK2703025591 Hong Kong SOUTH CHINA  
MORNING POST in English 27 Mar 91 p 1*

[By Kent Chen and Chris Yeung in Beijing]

[Text] China's top representative in Hong Kong, Mr Zhou Nan, last night expressed fears that the territory faced a series of deficit budgets up to 1997, that would leave the future Special Administrative Region [SAR] in financial difficulties from day one.

Mr Zhou, the director of the local branch of the NEW CHINA NEWS AGENCY, said in Beijing that "you have probably noticed that the Hong Kong Government is now beginning to have a deficit budget".

"It appears that there will be deficits in the coming years up to 1997.

"If that is the case, the present reserves will be used up and only a small amount will be left behind.

"The future Special Administrative Region will face financial difficulties the day it is set up. And in case there are outstanding debts arising from developing the new airport, who is going to repay them?"

Mr Zhou substantiated his worries by quoting the Hong Kong Government's estimate that \$120 billion would be needed to pay pensions for civil service staff, should such a scheme be established.

"If only a small amount of reserves is left and the SAR Land Fund had not been so high as (the Government) predicted, what should we do (to pay for the pension entitlements)?" he asked.

Mr Zhou said China feared that the future SAR might be left with no alternative but to raise taxes to generate more revenue.

"Hong Kong people will have to pay more. If not, it has to go bankrupt. There will then be no more prosperity nor stability," he said.

Worries that a difficult financial situation has started to emerge comes days before top Chinese officials are due to meet the British Foreign Secretary Mr Douglas Hurd in Beijing, particularly to discuss the massive and expensive Chek Lap Kok airport plan.

Mr Zhou said China was ready to resolve the airport controversy and any other matters during the talks with Mr Hurd, provided Britain was sincere.

He added that Beijing hoped the British side would "respond positively" to Chinese proposals on the airport plan and that a consensus could be reached gradually.

Mr Zhou declined to comment on reports that Beijing had demanded that \$50 billion be retained for the SAR.

"If they are sincere, any problems can be resolved. If there is a will, there is a way. Otherwise, even 10 more sessions between experts could not solve the problem," he said.

Mr Zhou reiterated China's wish for an early settlement, adding: "We don't want the talks to drag on for long."

He stressed, however, that Beijing would not "sacrifice" its principles on the airport issue.

He said there were aspects of the project which were not in the best interests of Hong Kong people.

He argued that development of Shenzhen airport would cost only about \$200 million yuan (HK\$298.6 million).

"Why does it (Chek Lap Kok airport) cost over \$100 billion? What are the reasons? This is a question that Hong Kong people should express their concern," he said. [sentence as published]

On the participation of two mainland-funded companies in developing the new cargo Terminal 8 on Stonecutters Island, which is part of the territory's future port and airport infrastructural plan, Mr Zhou said China would not meddle with matters that did not affect the well-being of the territory beyond 1997.

"If your airport is completed in three years, we won't say anything about it. But that is not the case.

"The expenditure is so enormous. We don't understand why it is so costly," Mr Zhou said.

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